

UNIVERSITY OF MINNESOTA

BOARD OF REGENTS

Audit Committee

Thursday, September 12, 2013

8:00 - 9:15 a.m.

600 McNamara Alumni Center, East Committee Room

Committee Members

Laura Brod, Chair
Patricia Simmons, Vice Chair
Clyde Allen
Peggy Lucas
Abdul Omari

Student Representatives

A G E N D A

1. Internal Audit Update - G. Klatt (pp. 2-20)
2. Process Audit Results - G. Klatt (pp. 21-33)
3. University Financial Risk Profile - R. Pfutzenreuter/M. Volna (pp. 34-36)
4. 2013-14 Committee Work Plan Discussion - L. Brod/G. Klatt (pp. 37-38)
5. Consent Report - G. Klatt (p.39)
6. Information Items - G. Klatt (pp. 40-46)



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

September 12, 2013

Agenda Item: Internal Audit Update

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

To update the Audit Committee on Internal Audit activities, results, and observations to help the committee fulfill its fiduciary responsibilities under its reserved authority for oversight of the internal audit function, as outlined in Board of Regents Policy: *Audit Committee Charter*.

Outline of Key Points/Policy Issues:

- Since our last follow-up for the June 2013 meeting 47% of the outstanding recommendations rated as “essential” were implemented by University departments. This is higher than our expected implementation rate of 40%. Four units fully implemented all their remaining “essential” recommendations.
- An updated control evaluation chart is included for each audit to show progress made on the “essential” items.
- Four audit reports containing two recommendations rated as “essential” were issued in the last three months.

Background Information:

This report is prepared three times per year and is presented to the Audit Committee in conformance with Board of Regents Policy: *Board Operations and Agenda Guidelines*.

Internal Audit Update

University of Minnesota Regents Audit Committee
September 12, 2013

This report includes:

- Audit Observations/Information/Status of Critical Measures/Other Items
- Status of “Essential” Recommendations & Bar Charts Showing Progress Made
- Audit Activity Report
- Audit Reports Issued Since June 13, 2013

Details for any of the items in this report are available on request. Individual reports were sent to the President, Provost, Vice Presidents, and Chancellors about these internal audit issues.

Audit Observations/Information

Status of Critical Measures

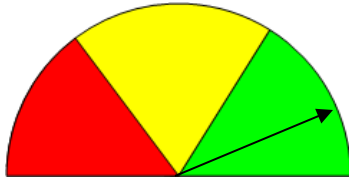
As part of our on-going efforts to provide the Audit Committee with critical information in as concise a format as possible, we have developed the following three charts to present a “snapshot” status report on work performed by the Office of Internal Audit.

The first chart, “Essential Recommendation Implementation”, provides our overall assessment of the success University departments had during the last quarter in implementing our essential recommendations. Readings in the yellow or red indicate implementation percentages less than, or significantly less than, our expected University-wide rate of 40%. Detailed information on this topic, both institution-wide and for each individual unit, is contained in the next section of this Update Report.

The second chart, entitled “Progress Towards Annual Audit Plan Completion”, is our assessment of how we are progressing towards completion of the FY 2014 Annual Audit Plan. Readings less than green could be influenced by a variety of factors (i.e. insufficient staff resources; increased time spent on non-scheduled audits or investigations).

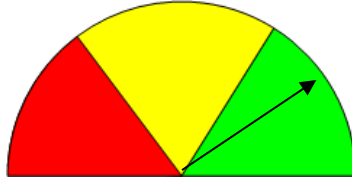
The final chart, “Time Spent on Investigative Activities”, provides a status report on the amount of time consumed by investigative activities. Our annual plan provided an estimated budget for this type of work, and the chart will indicate if we expect that budget to be sufficient. Continued readings in the yellow or red may result in seeking Audit Committee approval for modifying the Annual Audit Plan.

Essential Recommendation Implementation



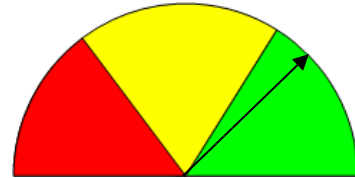
Implementation rates were 47% for the period, which is higher than our expected rate of 40%.

Progress Towards Annual Audit Plan Completion



Time spent to date on the FY 2014 audit plan is about what was expected and budgeted. One vacant auditor position is still being held open, as discussed with the Audit Committee at its June 2013 meeting.

Time Spent on Investigative Activities



Time spent on investigative activities and special projects is about what was expected and budgeted for the year to date.

Other Items

- We completed the audit work requested by the Office of the Legislative Auditor (OLA) regarding the University's use of general obligation bond funding provided by the 2008 and 2010 state bonding bills. We concluded the University has established an effective system of controls that address its most significant risks related to the receipt and use of state general obligation debt funding. The University has an effective process in place to monitor expenses applied to the state funding for allowability according to state legislation. Two minor issues were developed and the draft report is being reviewed by University management. The OLA has reviewed our work and concurs with our conclusions. The results of our work will be incorporated into a report to be issued by the Legislative Auditor, which will include the results of their review of other recipients of general obligation debt funding.

Status of "Essential" Recommendations as of August 29, 2013

Report Date	Audit (P) Indicates a University process audit	Original Report Control Rating	# of Essential Recommendations in the Report	# of Essential Recommendations Remaining From Prior Quarter	Current Quarter Results				Overall Progress Towards Implementation*
					Implemented	Partially Implemented	Not Implemented		
					Not Past Target Date	Past Target Date	Not Past Target Date	Past Target Date	
<i>Audits > 2 years old (see the following report for details on unresolved issues)</i>									
Aug-09	School of Dentistry	Adequate	11	2		2			Satisfactory (a)
May-11	Boytton Health Services	Adequate	10	1		1			Satisfactory
<i>Audits < 2 years old: have received prior follow-up</i>									
Oct-11	UMD School of Fine Arts	Adequate	10	2		1		1	Satisfactory
Nov-11	University Payroll (P)	Needs Improvement	14	5	5				Completed (b)
Nov-11	Intercollegiate Athletics	Needs Improvement	5	2		2			Satisfactory
Feb-12	Dentistry - axiUm System (P)	Adequate	14	9	7		2		Satisfactory (c)
Feb-12	University Contract Management (P)	Adequate	17	3		3			Satisfactory
May-12	UMD Dining Services	Adequate	8	4	4				Completed
Sep-12	Vendor Payment & Imaging Process (P)	Good	1	1		1			Satisfactory
Sep-12	UMD Health Services	Good	3	2	2				Completed
Dec-12	Network Segments Not Managed By OIT	Adequate	5	5		2		3	Satisfactory
Jan-13	UMD Recreational Sports Outdoor Program	Good	5	5	4		1		Satisfactory
Jan-13	Workers Comp. & Payroll Processes (P)	Adequate	3	2	2				Completed
<i>Audits receiving first-time follow-up</i>									
Apr-13	Student Registration Processes U-Wide (P)	Good	1	1		1			Satisfactory
May-13	UM - Rochester Campus	Good	4	4	3				Satisfactory
May-13	Travel & Employee Reimbursements (P)	Good	1	1		1			Satisfactory
May-13	UMD - College of Liberal Arts	Adequate	6	6		3		3	Satisfactory
Jun-13	Lab Safety Process Review (P)	Adequate	1	1				1	Satisfactory
Jun-13	Office of Technology Commercialization	Good	3	3		3			Satisfactory
Jun-13	Research Data Storage (P)	Adequate	5	5	3		2		Satisfactory (d)
Total:			127	64	30	13	11	9	1

*The following bar charts provide details on progress made towards implementation

- (a) Issues pertaining to Dentistry's Faculty Practice Plan remain, but management continues to make progress on this issue. Details are provided in the following report of "Issues Greater Than Two Years Old".
- (b) Four recommendations were closed as a result of senior management's letter (see the following copy) indicating a willingness to accept remaining risks based upon progress made to date and planned ESUP enhancements.
- (c) One recommendation was closed as it was determined current software would not accommodate the recommended changes and other measures were not cost effective.
- (d) Three issues were closed as a result of senior management's action plan in the report, which deemed associated processes and risks as acceptable.

"Essential" Recommendation Implementation Trends

Month / Year of Follow-up Report

	Month / Year of Follow-up Report												Average
	Sept. 2013	June 2013	Feb. 2013	Sept. 2012	June 2012	Feb. 2012	Sept. 2011	June 2011	Feb. 2011				
# of Essential Recommendations Receiving Follow-up	64	56	67	72	89	82	78	57	82				65
# of Recommendations Considered Fully Implemented	30	13	26	16	26	55	12	16	35				22
Implementation Percentage	47%	23%	39%	22%	29%	67%	15%	28%	43%				34%

Audit/ Report Date	Status-Partially Implemented (P) or Not Implemented (N)	Senior Management Contact	Summary of the Issue/Risk Involved	Current Comments From Management
School of Dentistry Aug-09	P	Jeff Ogden Leon Assael	<p>Dentistry administration should continue their efforts to implement changes to the FPC to improve revenue generation and financial performance. Dentistry should continue working with the AHC and the Board of Regents (as needed) to determine if the compensation model and Board of Regents policy for the Dentistry practice plan should be modified.</p> <p>The practice of paying the faculty private practitioners prior to the recovery of overhead should be discontinued.</p>	<p>The School of Dentistry is spending significant time and resources improving its faculty practice operations. We are in the midst of a major transition with the oral surgery division, which has been challenging on a number of fronts, although we are making progress in a situation that has been many years in the making. Overall the faculty practice operations are a positive contributor to the School of Dentistry financially. The component of the faculty practice that is located in PWB, which is specifically referred to in the audit recommendation, suffers from poor visibility and location. However, this faculty practice clinic is necessary to allow us to attract faculty as we cannot compete with private sector compensation levels with existing salary levels (and it is more advantageous to maintain this variable component of their compensation rather than increasing fixed cost salary levels). See comments above on the changes made to date and the ongoing implementation of the new faculty practice plan model.</p>
<p># of Items 2</p> <p>Boynton Health Service May-11 D</p>	P	Carl Anderson Ferd Schlapper	<p>BHS should enhance its change management processes and ensure the enhanced change processes are applied to all code change management on all applications used by BHS. Formal processes should be established for the movement of changes between development, test, and production environments. Only tested and authorized changes should be moved into production. Development and testing should be performed in dedicated environments. Vendor and developers' update access to the production environment should be removed or systematically restricted with necessary logging and monitoring mechanisms.</p> <p>Evidence that code changes were tested and appropriately authorized should be retained.</p> <p>Change evidence should be reconciled with system generated logs that illustrate when changes were moved between the various environments and who did the actual moves. Logs should be secured so no one who can migrate changes can also modify or delete the logs. These change logs should be periodically reviewed by appropriate independent management (i.e., management without access to make changes to the application).</p> <p>Code and system change processes should incorporate end-user testing and business process owner approval for the most significant changes.</p> <p>Emergency code change processes should be established and followed. Emergency processes should ensure users cannot unilaterally move code into production without some independent review and approval. All emergency changes should be consistently documented and require retroactive review to confirm the appropriateness of the emergency changes.</p>	<p>Boynton Health Services (BHS) is in the process of implementing a new Medical Record system. The system was expected to be moved into production in July however the timeframe has been delayed to complete testing of newly developed software. At the same time the system is moved into production, BHS intends to implement a new tool for tracking system changes. BHS has been testing the change tracking tool and is confident that it will address the concerns listed in the finding. As the tool is implemented BHS will be codifying associated standards and procedures for evaluating reporting out of the tool to ensure only authorized and tested changes are being moved to production. Resolution of this finding has been impacted by the decision to update the medical record system. It is expected that the necessary infrastructure and processes will be functioning by the end of December 2013. BHS prefers not to invest in development of systems it intends to decommission.</p>
<p># of Items 1</p>				
<p>Total: 3</p>				

UNIVERSITY OF MINNESOTA

Twin Cities Campus

*Office of the Vice President for
Human Resources*

*170 Donhowe Bldg.
319-15th Avenue S.E.
Minneapolis, MN 55455
Office: 612-624-6556
Fax: 612-624-6372*

August 26, 2013

To: Thomas Eggenberger, Office of Internal Audit

From: Kathryn F. Brown, ^{KFB}Vice President for Human Resources

Re: Payroll Audit

In the November 2011 Internal Audit Report of Payroll/HRMS, a number of the findings were related to Payroll Services' ability to provide enhanced monitoring and oversight. In particular the remaining recommendations numbered 1.a, 2.b, 9.a, and 9.b address the need for Payroll Services to provide preventative controls, automated rules and validation, and tools to evaluate data integrity.

While Payroll Services has made progress on each of these issues, full resolution of the recommendations is dependent upon the implementation of the Enterprise System Upgrade Project (ESUP). Payroll Services in the Office of Human Resources has dedicated significant resources to the project, and is willing to assume the risks detailed in the recommendations noted above, understanding that increased monitoring and oversight will be the outcome of our efforts. We anticipate realizing vital technological and business process improvements through the upgrade project.

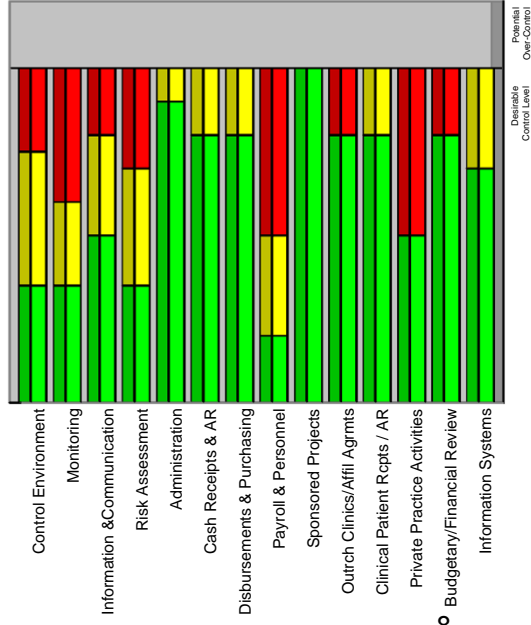
The ESUP project includes implementation of the new Time & Labor and Absence Management modules. Payroll Services will oversee these applications and take on a central monitoring role for time and leave reporting. Significant rules and validation will be built into the applications, allowing us to prevent errors. A redesign of business processes related to HR appointment data will drive an improvement in data integrity. In addition, OHR Operations is adding a function dedicated to the development and implementation of an HR data integrity program. This function will regularly audit HR and Payroll data integrity

Payroll Services appreciates the goals of the Internal Audit of Payroll HRMS and continues its efforts to enhance monitoring and controls resulting from the audit. Nonetheless, the complete resolution of these recommendations is system-dependent. Following implementation, we will welcome the opportunity to revisit these recommendations and demonstrate the outcomes of our efforts with the Enterprise System Upgrade Project.

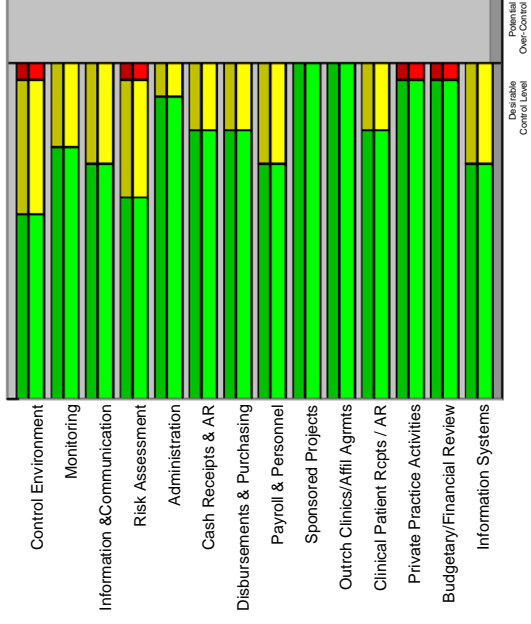
c: Gail Klatt, Associate V.P, Office of Internal Audit
Lori Lamb, Director, OHR Operations
Heather Kidd, Director, Payroll Services

The bar charts shown below are presented to provide pictorial displays of the progress units are making on implementing audit recommendations rated as "essential". The bar chart included in the original report is shown in the left column, along with updated bar charts showing the previous quarter and the current status of the "essential" recommendations only (those bars that have red segments). The chart in the center column displays the status as of June 2013, while the chart on the right represents the current status. Charts are not presented for investigations. Charts for those units having implemented all "essential" recommendations during the current quarter are shown at the end of this report.

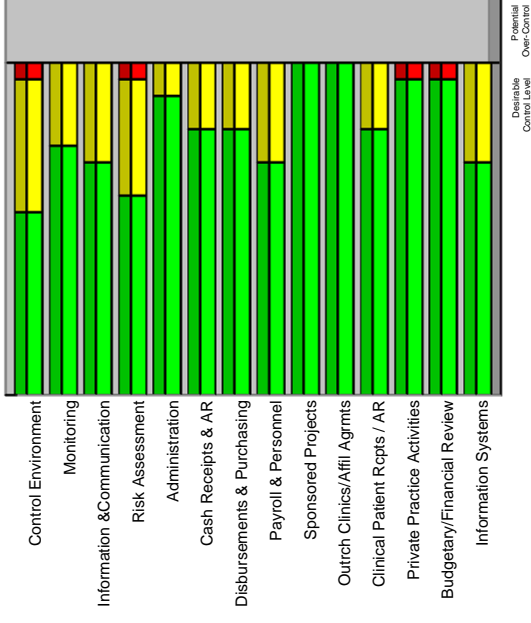
Original Report Evaluation



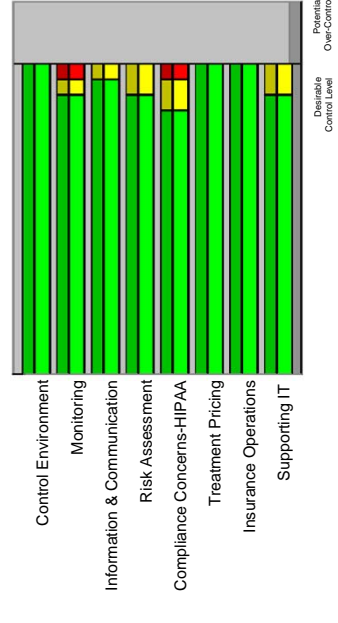
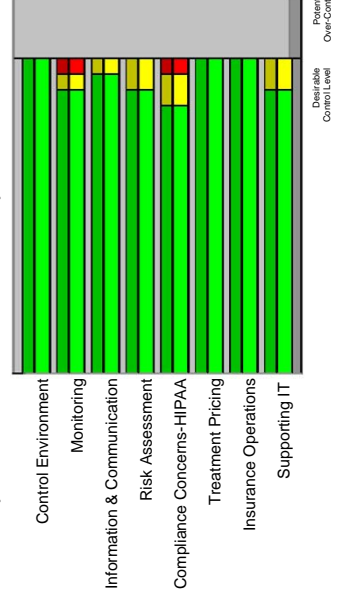
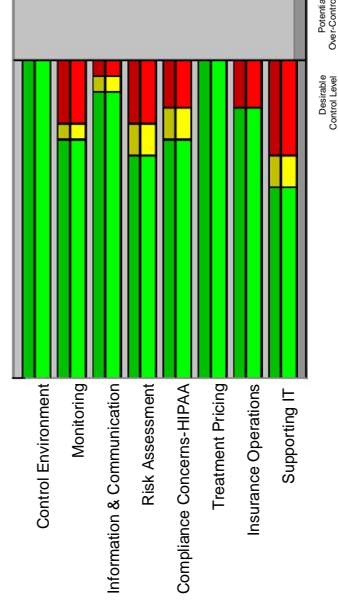
Previous Quarter Evaluation
School of Dentistry (August 2009)



Current Quarter Evaluation



Boynton Health Service (May 2011)



Adequate Control

Significant Control Level

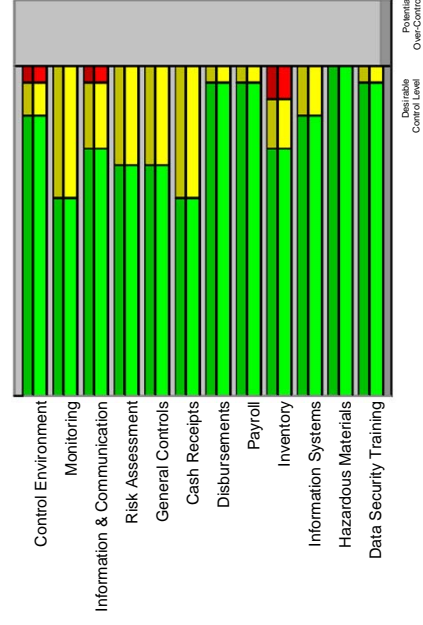
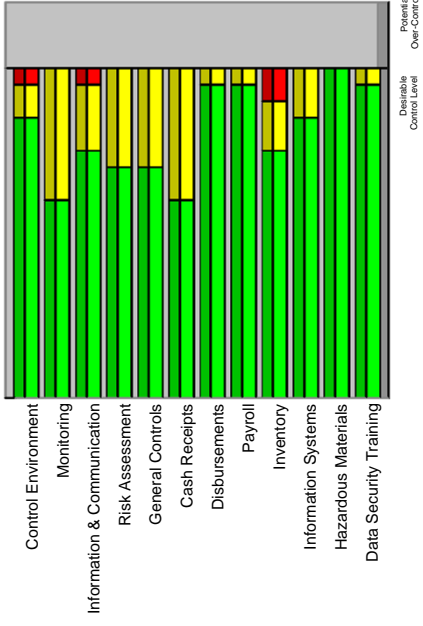
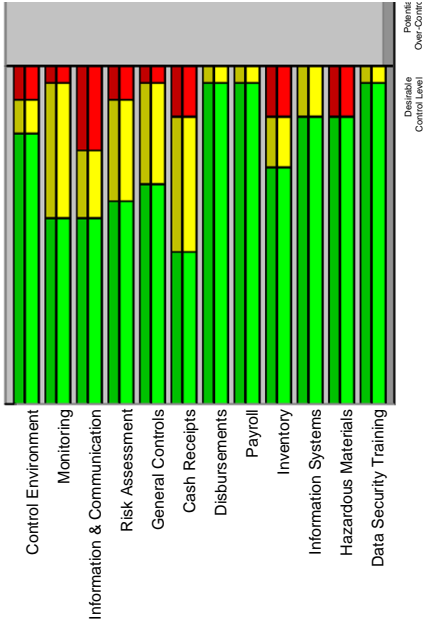
Critical Control Level

Potential Over-Control

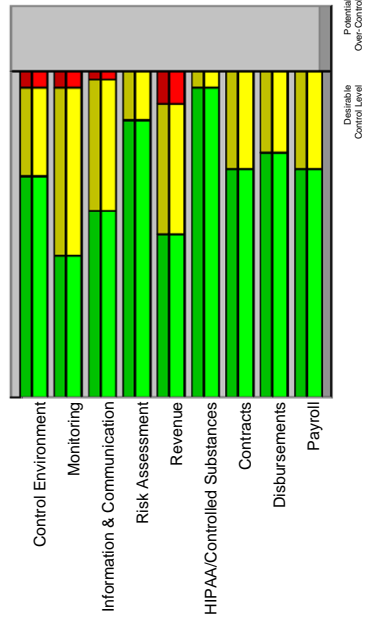
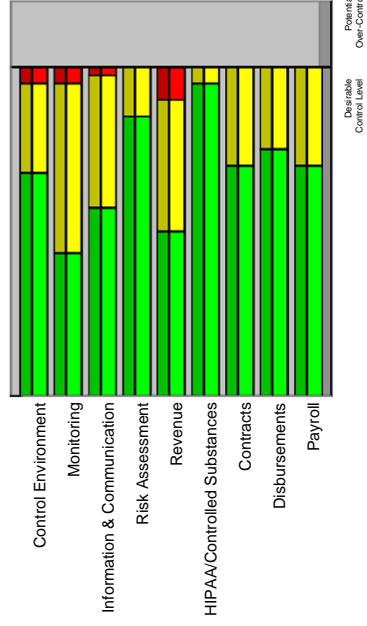
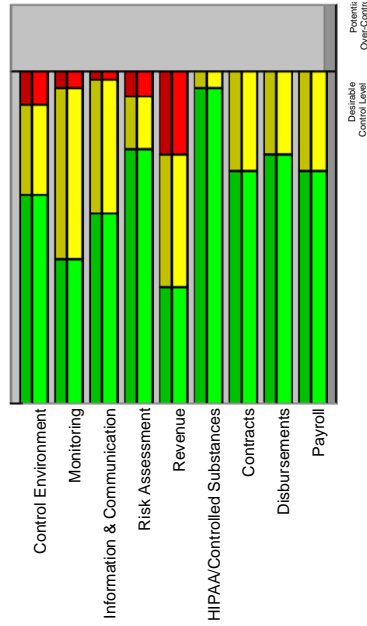
Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation



Intercollegiate Athletics (November 2011)



Adequate Control

Significant Control Level

Critical Control Level

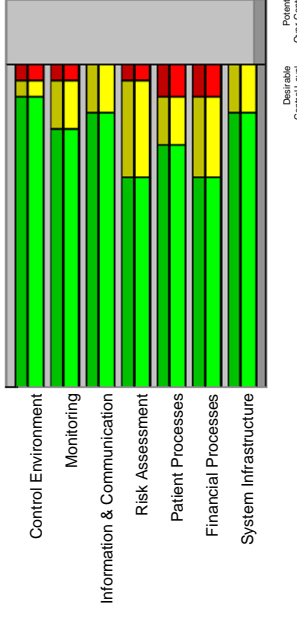
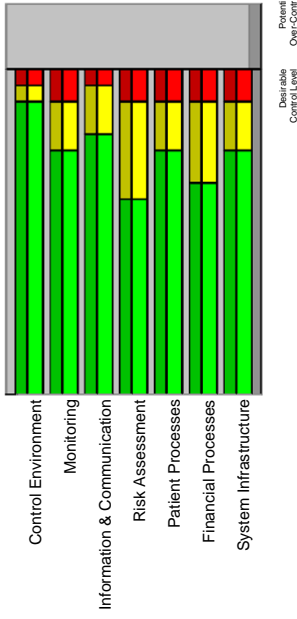
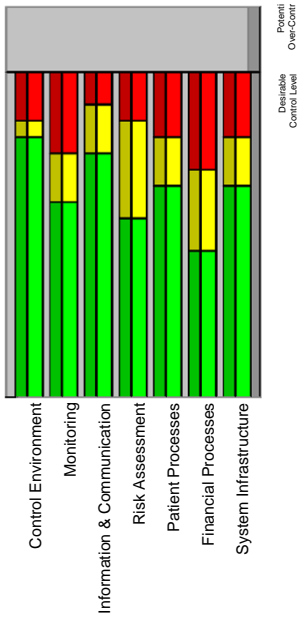
Potential Over-Control

Original Report Evaluation

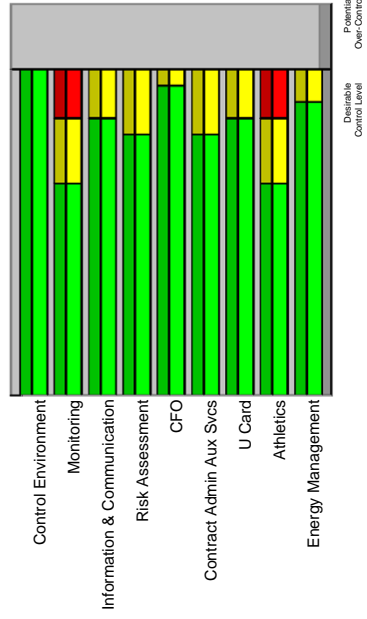
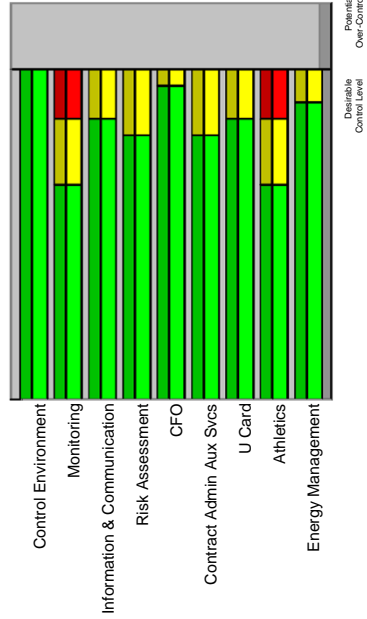
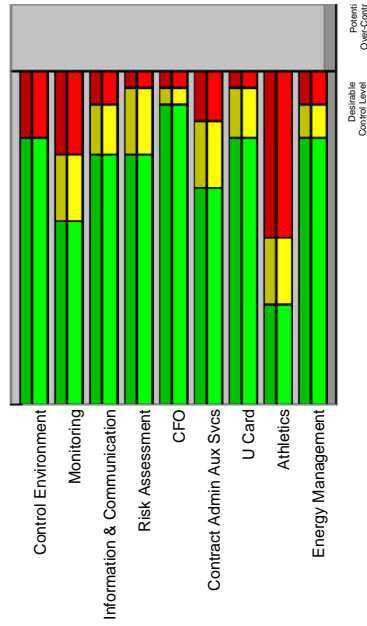
Previous Quarter Evaluation

Current Quarter Evaluation

Dentistry - axiUm (February 2012)



University Contract Management (February 2012)



Adequate Control

Significant Control Level

Critical Control Level

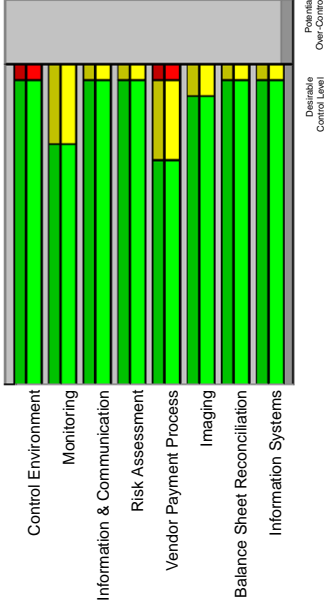
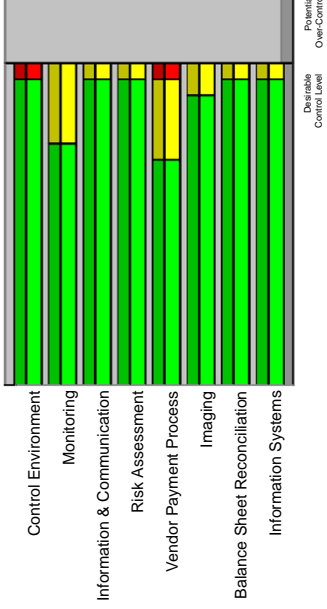
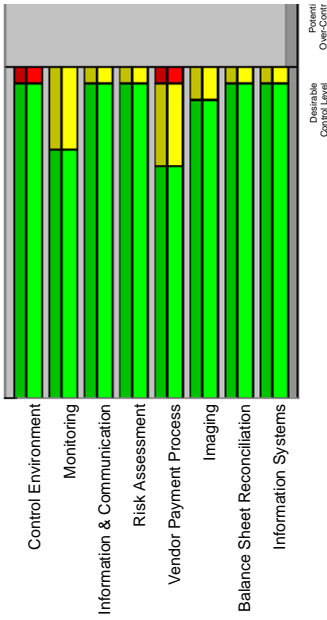
Potential Over-Control

Original Report Evaluation

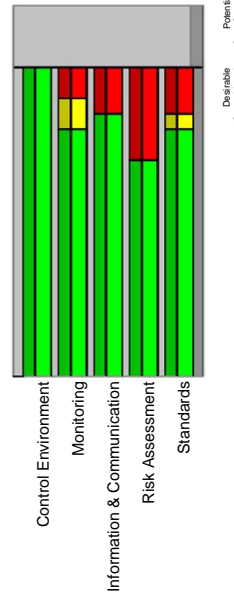
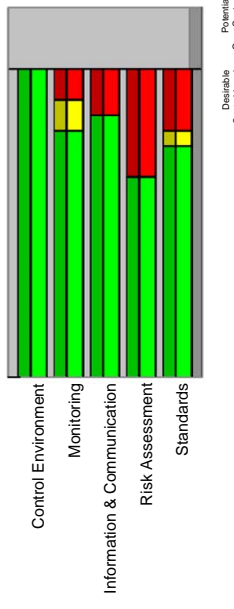
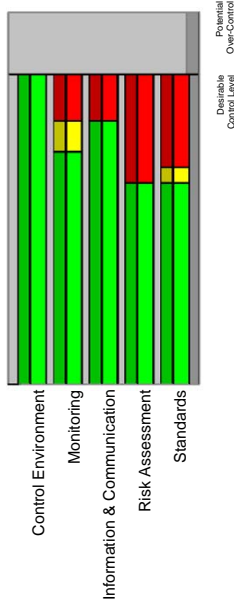
Previous Quarter Evaluation

Current Quarter Evaluation

Vendor Payment and Imaging Process (August 2012)



Network Segments Not Managed By OIT (December 2012)



Adequate Control

Significant Control Level

Critical Control Level

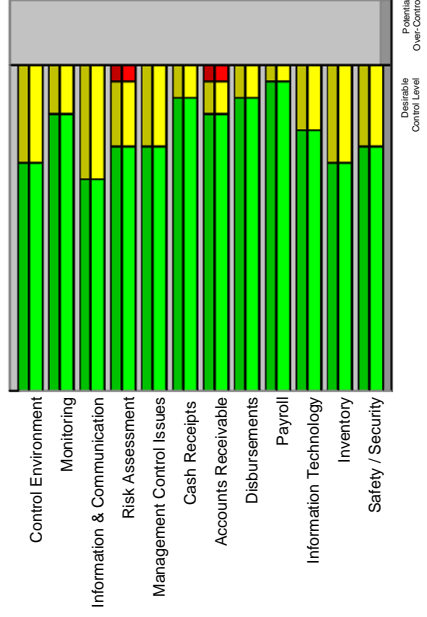
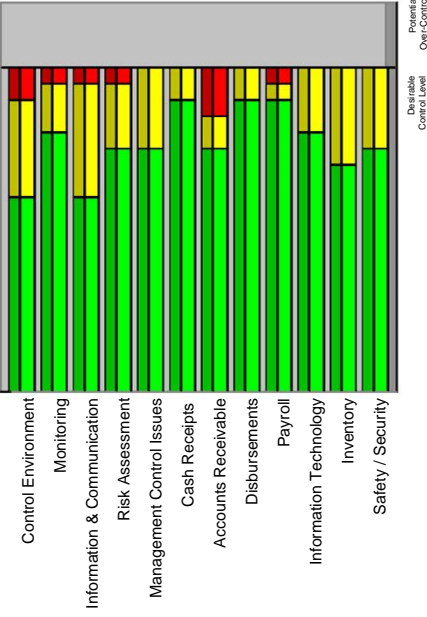
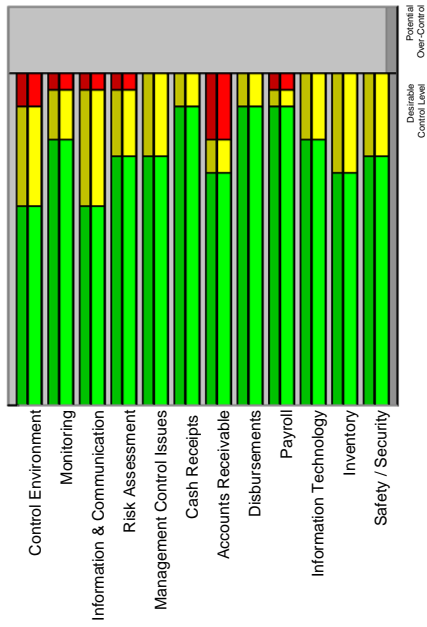
Potential Over-Control

Original Report Evaluation

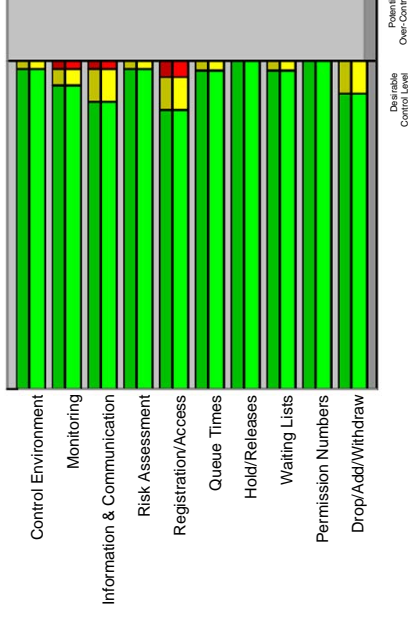
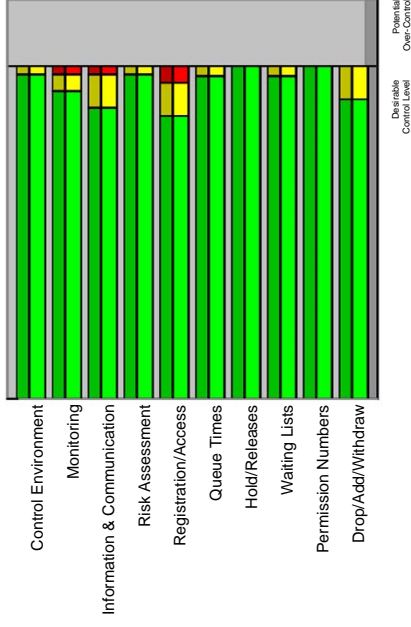
Previous Quarter Evaluation

Current Quarter Evaluation

UMD Recreational Sports Outdoor Program (January 2013)



Student Registration Processes (April 2013)



NO PREVIOUS CONTROL EVALUATION CHART

Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control

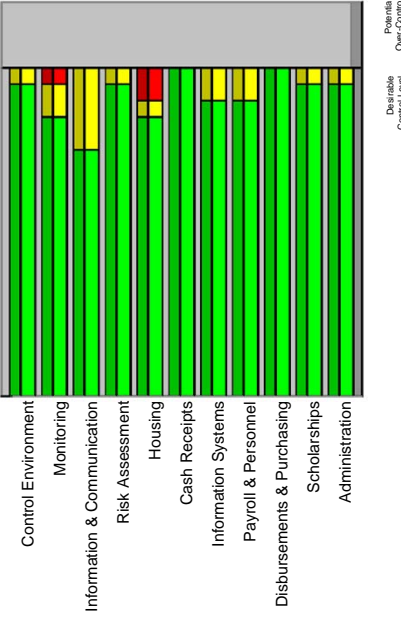
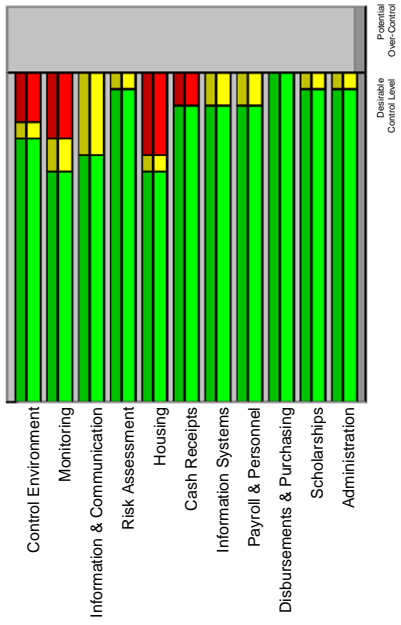
Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

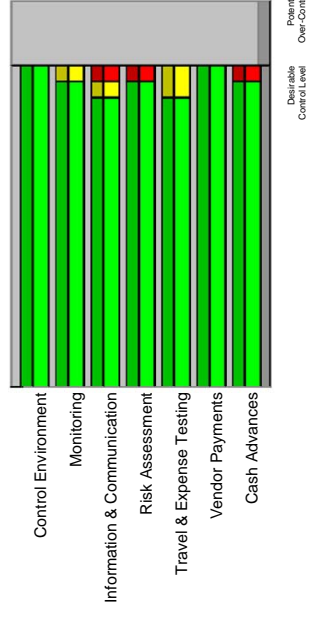
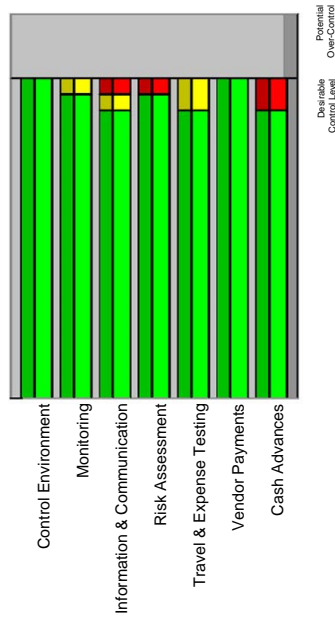
Rochester Campus (May 2013)

NO PREVIOUS
CONTROL EVALUATION
CHART



Travel & Employee Expense Reimbursement Process (May 2013)

NO PREVIOUS
CONTROL EVALUATION
CHART



Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control

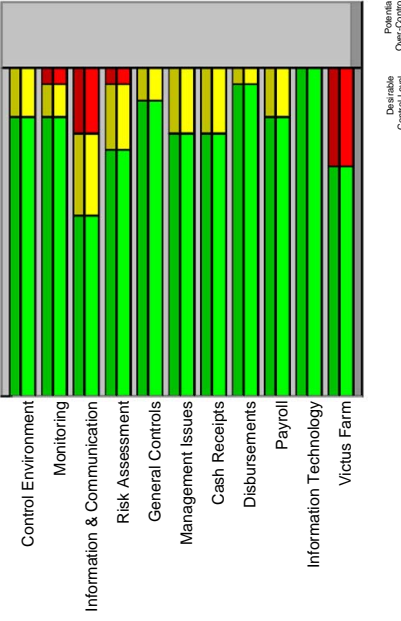
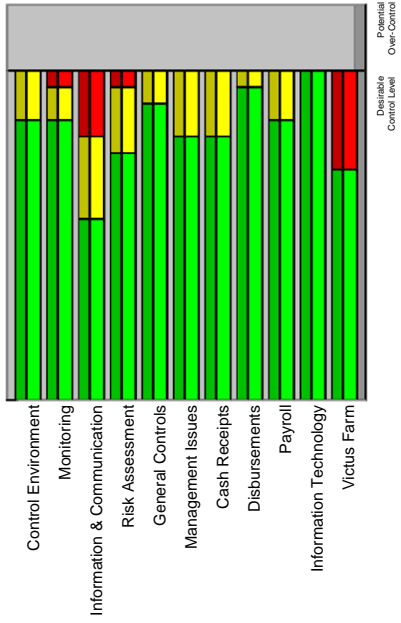
Original Report Evaluation

Previous Quarter Evaluation

Current Quarter Evaluation

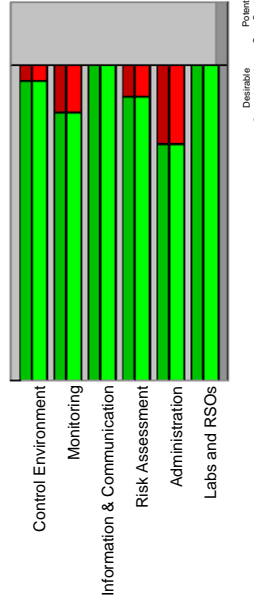
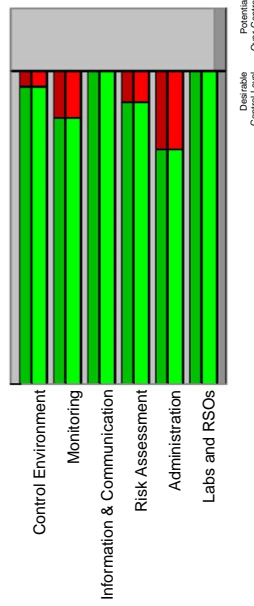
UMD College of Liberal Arts (May 2013)

NO PREVIOUS
CONTROL EVALUATION
CHART



Lab Safety Process Review (June 2013)

NO PREVIOUS
CONTROL EVALUATION
CHART



Adequate Control

Significant Control Level

Critical Control Level

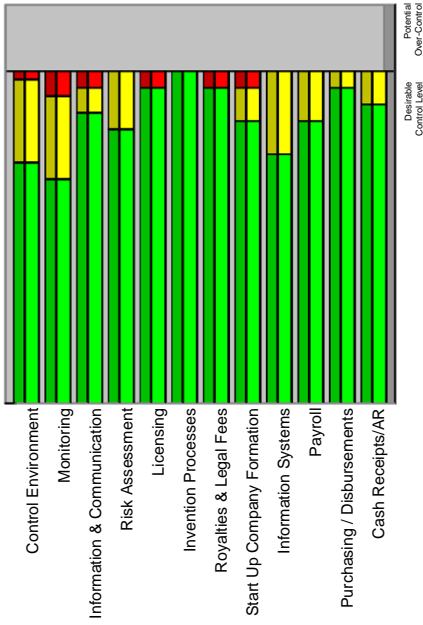
Potential Over-Control

Original Report Evaluation

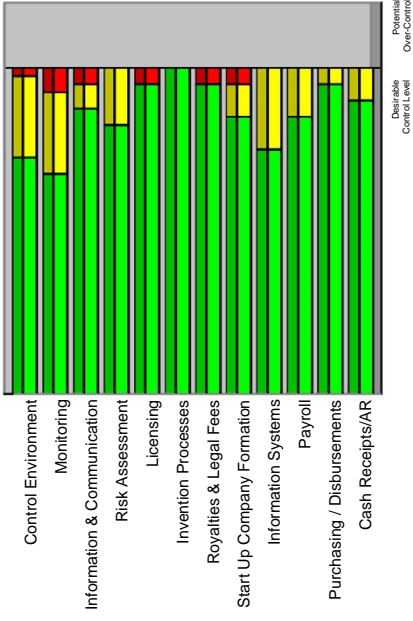
Previous Quarter Evaluation

Current Quarter Evaluation

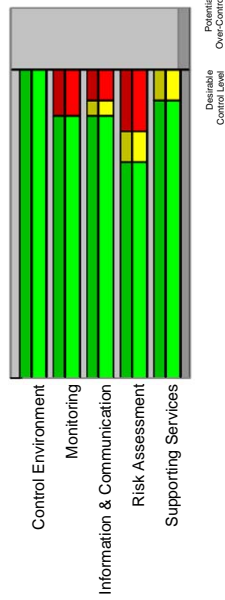
Office of Technology Commercialization (June 2013)



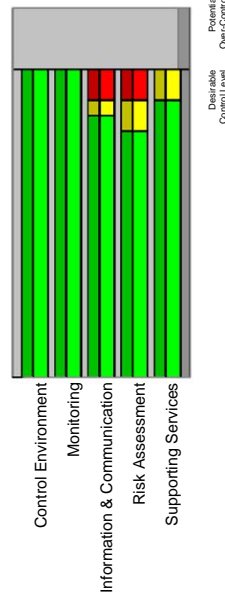
NO PREVIOUS CONTROL EVALUATION CHART



Research Data Storage (June 2013)



NO PREVIOUS CONTROL EVALUATION CHART



Adequate Control

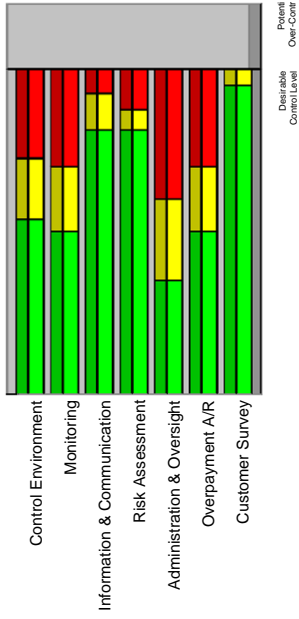
Significant Control Level

Critical Control Level

Potential Over-Control

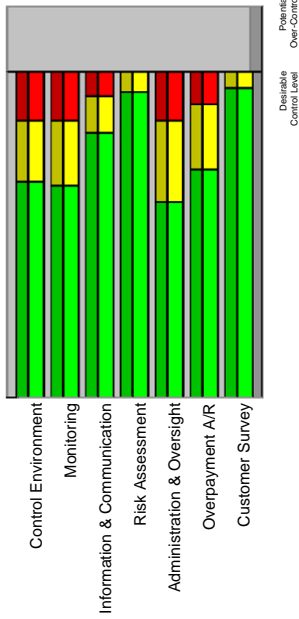
Units with Charts that Fully Implemented their "Essential" Recommendations During the Past Quarter

Original Report Evaluation

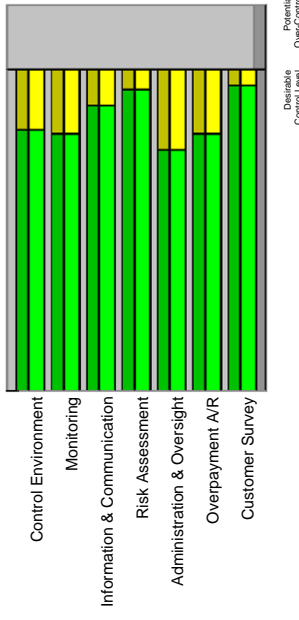


Previous Quarter Evaluation

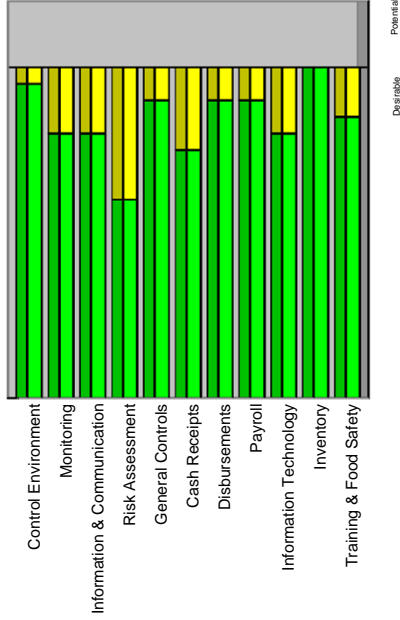
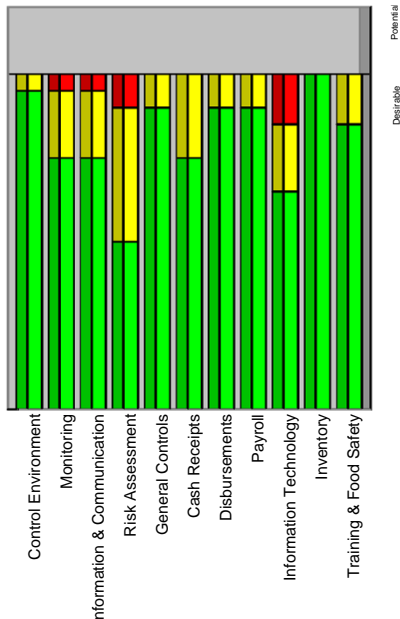
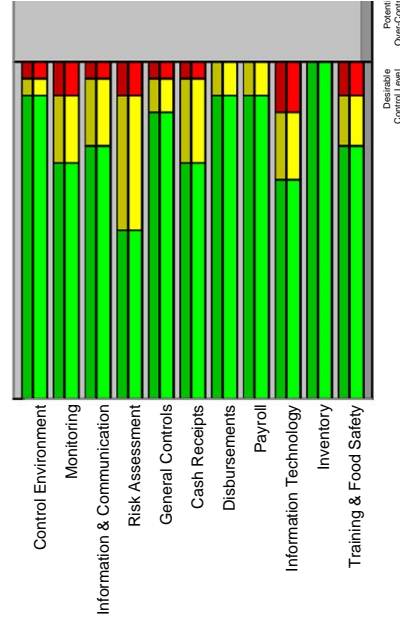
University Payroll (November 2011)



Current Quarter Evaluation



UMD Dining Services (May 2012)



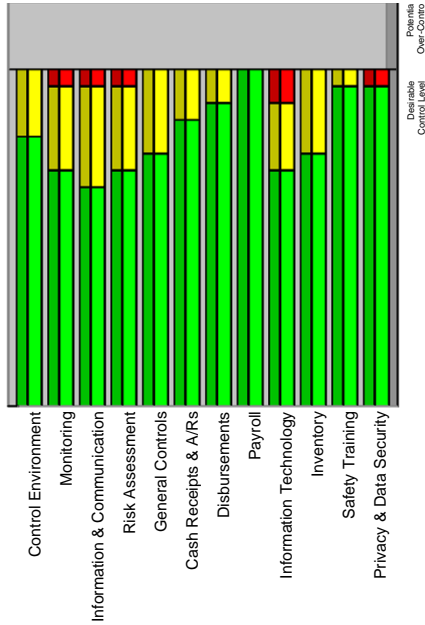
Adequate Control

Significant Control Level

Critical Control Level

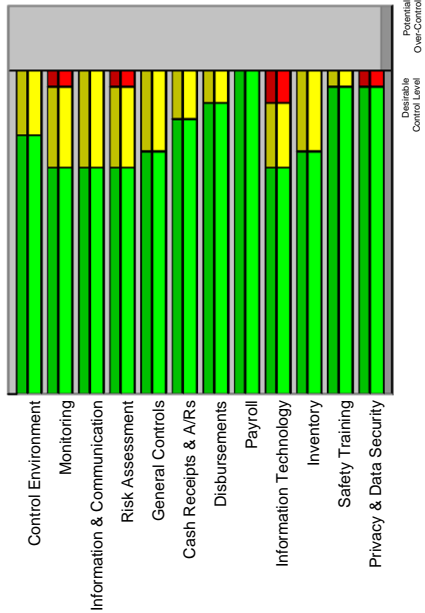
Potential Over-Control

Original Report Evaluation

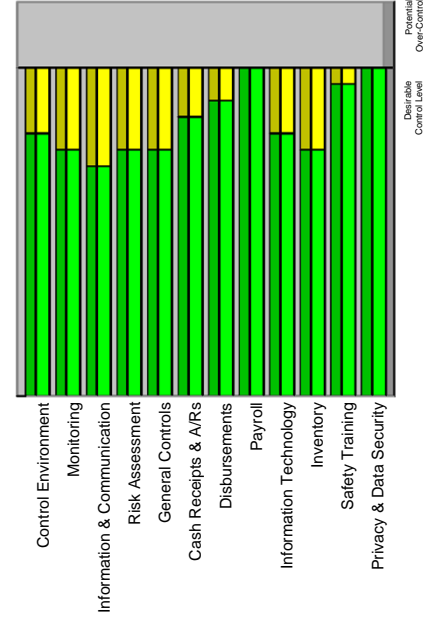


Previous Quarter Evaluation

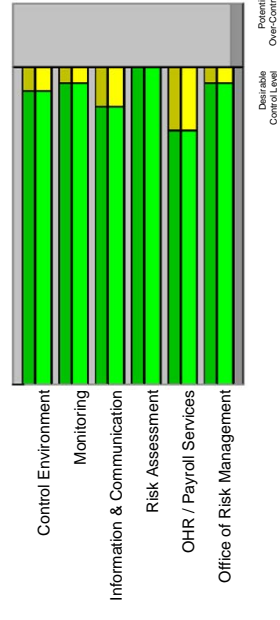
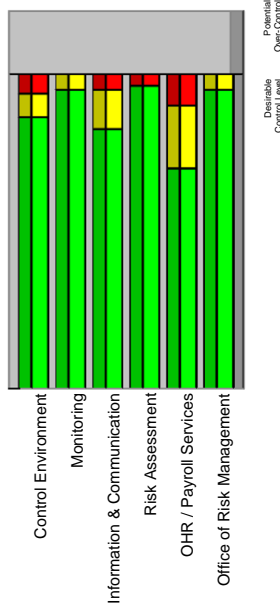
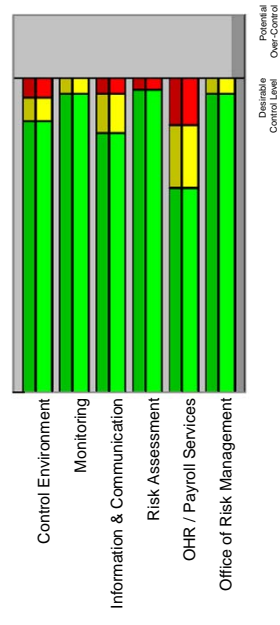
UMD Health Services (September 2012)



Current Quarter Evaluation



Worker's Compensation & Payroll Processes (January 2013)



Adequate Control

Significant Control Level

Critical Control Level

Potential Over-Control

Audit Activity Report

Scheduled Audits

- Completed audits of: the conflict of interest process, Employee Benefits - retirement plans and Twin Cities student unions and activities. Details are shown on the following charts.
- Began/continued audits of: compliance-privacy/security of regulated data, mobile computing devices, identity management, the external reporting process, UMD - Kirby Student Center, UMD ITSS, the University's debt process, the Department of Chemistry, the Department of Pediatrics, NCAA sport compliance (men's hockey & women's hockey programs) and the University's purchasing process.

Non-Scheduled Audits

- Completed our audit of the Institute on the Environment. Details are shown on the following chart.
- Continued our audit of the Center for Transportation Studies.
- Completed the audit work requested by the Legislative Auditor of the University's use of 2008 and 2010 general obligation bond funding. A draft report has been issued to University management.
- Began a requested audit of the St. Anthony Falls Lab NSF Renovation Grant.

Investigations

- Performed investigative work on five issues in accordance with the University Policy on Reporting and Addressing Concerns of Misconduct.

Special Projects

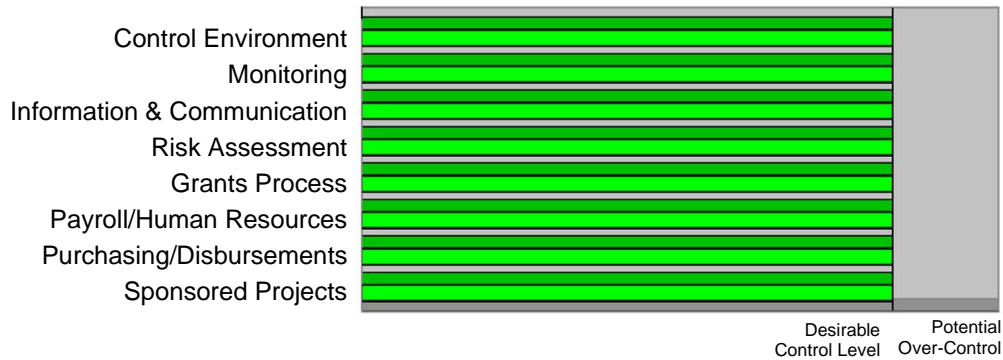
- Completed a review of Boynton Health Service cash handling/revenue acceptance and provided a report to Boynton management.
- Provided consulting services related to University payroll exception testing.
- Performed institution-wide testing of UMF-funded gift and endowment accounts as required under the Memorandum of Understanding, and provided a report to UMF.

Other Audit Activities

- Participated in the following:
 - Senior Leadership Group
 - Operational Excellence Leadership Team
 - President's Policy Committee
 - Board of Regents Policy Committee
 - Executive Compliance Oversight Committee
 - Institutional Conflict of Interest Committee
 - University of Minnesota Foundation Audit Committee
 - Fairview Health Systems Audit Committee
 - Enterprise System Upgrade - Human Resource Functional Steering Committee
 - OHS Steering Committee

Audit Reports Issued Since June 2013

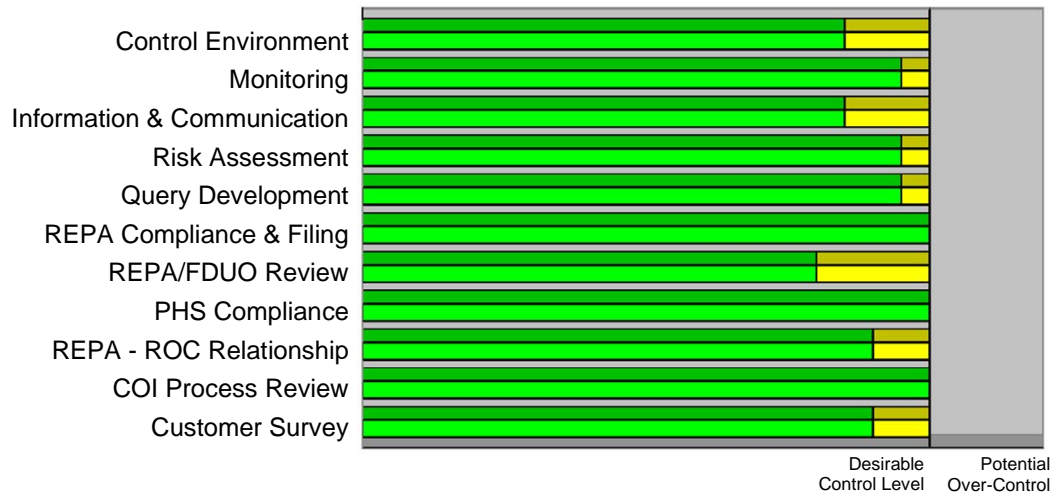
Institute on the Environment (IonE)



Report #	1324	Issue Date	Jun-13
# of Essential Recs.	0	Total # of Recs.	0
Overall Assessment	Good	Adequacy of MAP	NA

IonE has developed a control environment and a system of internal control that addresses its major business and compliance risks. The support provided by the Provost's Office financial cluster has been especially effective in providing IonE management with the necessary administrative services as well as reports critical to monitor the programs they oversee. The results of an employee survey indicated that employees share an exceptionally positive view of management and support staff.

Conflict of Interest Process

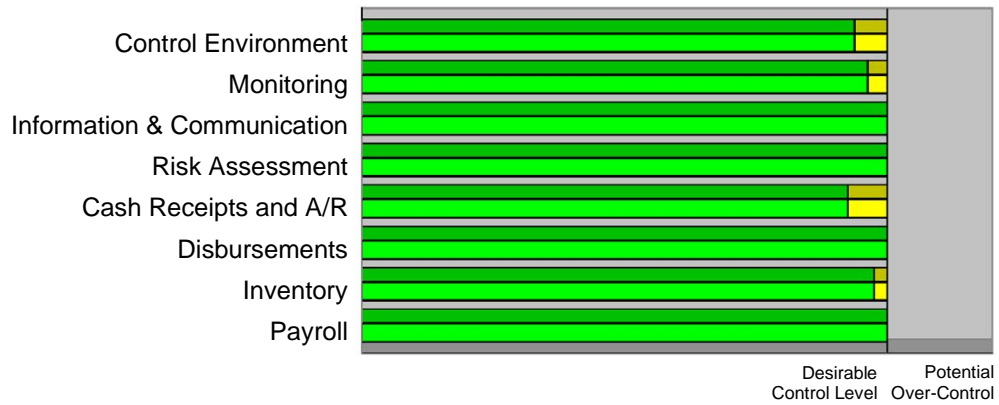


Report #	1325	Issue Date	Jun-13
# of Essential Recs.	0	Total # of Recs.	7
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The Conflict of Interest Program within the Office of Institutional Compliance has established an effective system of controls that addresses the most critical risks regarding conflict of interest. Compliance rates for both REPA and FDUO filing were very high (ultimately 100%). It is also worth noting the significant number of conflict of interest matters (1,100+) that are reviewed and resolved each year by the Conflict of Interest Program staff. We noted there were effective processes in place governing the creation and monitoring of conflict management plans and ensuring compliance with PHS training requirements. Compliance risks associated with conflicts of interest are being aggressively managed.

■ Adequate Control
 ■ Significant Control Level
 ■ Critical Control Level
 ■ Potential Over-Control

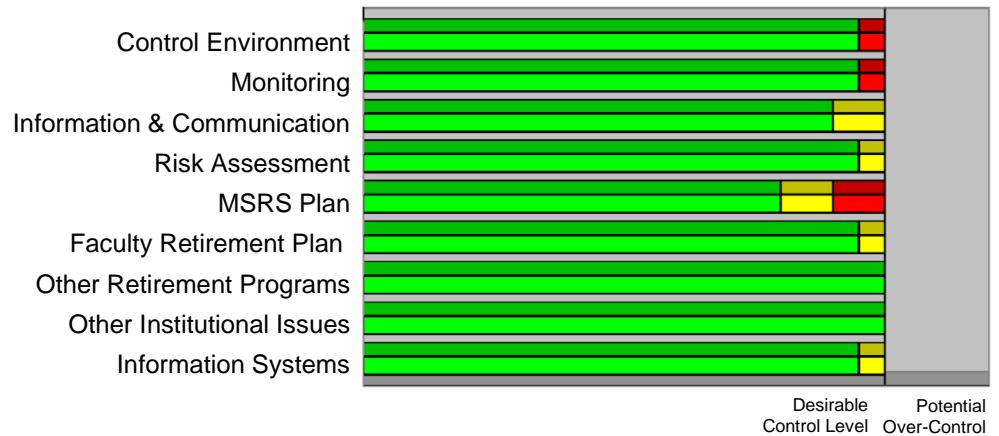
Student Unions and Activities



Report #	1401	Issue Date	Aug-13
# of Essential Recs.	0	Total # of Recs.	1
Overall Assessment	Good	Adequacy of MAP	Satisfactory

In our opinion, the operational, financial, and compliance controls in place at Student Unions and Activities (SUA) are effective. Our review indicated SUA maintains a strong control environment and SUA staff demonstrate a sincere interest in complying with all required policies and procedures. We observed SUA's commitment to continuous improvement demonstrated by efforts such as soliciting student feedback from various sources prior to remodeling student space in Coffman Union to better accommodate student groups. In addition, discussions have been held to consider migration to central receivable processing.

Employee Benefits – Retirement Plans



Report #	1402	Issue Date	Aug-13
# of Essential Recs.	2	Total # of Recs.	5
Overall Assessment	Good	Adequacy of MAP	Satisfactory

The Employee Benefits Retirement Program within the Office of Human Resources has established an effective system of controls that addresses the most critical risks regarding employee retirement benefits. However, incorrect earnings codes caused by errors in departmental payroll processing have inaccurately affected retirement contributions for a small number of employees. Retirement Program staff will be working with MSRS to address these errors, and communicating to departmental payroll processors the importance of timely and accurate appointment and payroll processing and the impact incorrect entry can have on employee benefits.

■ Adequate Control
 ■ Significant Control Level
 ■ Critical Control Level
 ■ Potential Over-Control



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

September 12, 2013

Agenda Item: Process Audit Results

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

In 2012 a strategic decision was made to incorporate a higher percentage of process-based audits into the Internal Audit annual audit plans. Process-based audits are generally considered to be the most effective audit approach to meet the assurance needs of governing bodies. The Audit Committee has expressed an interest in receiving an overview of the results of these audits.

Outline of Key Points/Policy Issues:

This presentation will discuss the benefits and limitations of unit and process-based audit approaches; provide the Audit Committee with overall conclusions based on the results of 16 completed process-based audits; and share how these audit results have informed the modification of selected internal audit practices.

A briefing document that summarizes the results of the 16 process based audits completed since 2011 is provided.

Background Information:

The decision to modify our audit approach was discussed in detail with the Audit Committee in 2011. The materials provided to the committee at that time are being provided in this docket.

**Board of Regents
Audit Committee
Process Audit Results
September 12, 2013**

The Office of Internal Audit utilizes several different audit approaches to obtain audit evidence to support its audit conclusions regarding the effectiveness of internal controls. The two most commonly used approaches are unit-based and process-based audits. Each of these approaches has distinct benefits and limitations. The decision on which approach is most appropriate is based on the overall objective of the audit and desired use of the audit results.

Units Audits: The purpose of unit audits is to evaluate the internal controls established locally to manage the unit's most significant risks. The audit scope will generally include testing compliance with University policies for a number of processes the unit uses to conduct its activities (finance, human resources, research, student, etc.). The information reviewed is generally restricted to that of the unit. The audit conclusions drawn will reflect the internal controls established within the unit. The policy requirements which serve as the testing criteria are generally assumed to be appropriately calibrated. The conclusions reached as a result of the audit evidence obtained are usually relevant only to the unit audited and cannot be extrapolated to the entire enterprise. Evidence is needed from a significant number of unit audits in order to arrive at trends which can approximate a conclusion on the institution-wide effectiveness of controls over any particular activity. Because of the elapse of time, the audit results are not always comparable due to changes that have occurred in the environment in the interim. Audit results will be informative about the quality of personnel, supervision, etc. within the unit. The overall effectiveness of individual processes, however, is not able to be fully evaluated since the audit scope is limited to only one unit, and as such, systemic issues are not likely to be identified.

Process Audits: The objective of process audits is to evaluate the overall effectiveness of a specific business process enterprise-wide. The audit scope is generally restricted to one significant process (and related sub-processes) and testing is conducted through statistical random sampling across multiple units, enterprise-wide. Data analytic tools and techniques allow for 100% of the population of activity to be reviewed and analyzed for anomalies and exception conditions. Audit results can be extrapolated enterprise-wide. Policy and process effectiveness can be more readily determined because testing is done in a variety of decentralized units simultaneously, which allow for systemic issues to be more readily identified. Process audits do not provide the depth of information about individual units; however, as with unit audits, trending of process audit results can identify units that have more errors than others. Process audits are generally considered to be the most effective audit approach for providing assurance to governance bodies.

Overall Conclusions and Observations Informed by Process Audit Results

The following conclusions and observations are derived from the audit findings of sixteen process audits that have been completed since 2011. Summaries of these audits follow this section.

- The University's significant financial processes are operating effectively with accuracy and compliance rates of, on average, in the mid-90%. Timeliness was the one area that consistently performed well under 90%. Policies were generally found to be clear, readily available, and well understood by University units' personnel. In a few instances, selected policies were identified

as warranting more clarification. Outside of Purchasing Card activity, limited oversight and monitoring is performed centrally to assess the quality of locally generated activity and resultant compliance with policy requirements.

- Human Resource processes (including payroll and related activities) are very complex and experience data quality issues. Significant efforts are required centrally to resolve errors resulting from locally-generated activity. Little, to no, monitoring was performed centrally, nor had operating performance metrics been established to evaluate the performance of local units, or identify anomalies in the human resources transaction activity.
- Student related processes were determined to operate very effectively and to be well controlled. The Enterprise Student system provides a very robust platform to support self-registration by students, and results in very few errors. While some processes related to student registration are locally controlled and variations were noted in how these processes were managed by individual units, there was no evidence these variations were detrimental to students in completing course registration. Significant monitoring is done to review registration activity, primarily for the purpose of determining if action is needed to manage course access (i.e., determining if additional course sections are needed).

Achieving the goals for Admissions activities are less dependent on technology and involve the exercise of judgment by admissions personnel. Admission goals were found to be well articulated by the Provost's Office and individual collegiate leadership. Processes were determined to be effective in meeting these goals. Significant monitoring is performed to assess the attributes of admission applicants against institutional goals. These attributes are monitored throughout the process until the matriculation of the entering class.

- The internal control infrastructure for the processes reviewed is often challenged by the decentralized nature of the University. The infrastructure is enhanced, however, by the use of common enterprise systems by all units/colleges/campuses, and a standardized set of Regental and administrative policies that apply to all units with a limited number of exceptions (i.e., University of Minnesota Duluth has its own administrative policies for many academic topics).
- Compliance with the intent of Board of Regents policies was generally found to be good.
- Operational performance metrics have not been established. Business process owners have not established acceptable compliance or error rates for their processes.
- The University does not have any institutional expectations for the ongoing monitoring of its institutional processes and little monitoring is performed.
- Some selected processes did not have identified process owners. These processes also did not have related policy guidance, the development of which would be the responsibility of a process owner.

Many of our overall conclusions were affirmed in the recently completed study by Huron Education. The study's report opined that:

- HR processes are challenging due to their complexity and distributed HR data entry makes monitoring quality more difficult. This has led to current data integrity issues and the need for

central HR to expend significant effort to correct data entries made by local units. A full program of controls and processes are needed for HR activity, along with the resources to support them.

- There is limited use of metrics and those that are used are focused on volume of activity versus quality of outcomes. HR, Finance, and Procurement functions track some metrics and outcomes but they have not been organized as a measurement program. Central Finance areas have process and operating metrics which evaluate efficiency, quality, and compliance of operations that deliver programs and services, but these areas do not monitor performance of local operations. Limited monitoring or oversight is provided for the performance of distributed finance staff. Metrics comparing the efficiency and effectiveness of clusters are not consistently in place. Error rates for distributed units are not regularly monitored or reported.
- Gaps in the current process make it difficult to analyze travel expenditures (i.e., the number of options available to pay for travel related expenses which are all independently reported).
- The University's on-time payment percentage was significantly lower compared to that of benchmarked institutions (only two institutions provided this information).
- The University would benefit from a contract management solution.

Results from Process Audits Completed

Financial Processes: Audits have been completed for five major financial processes since 2011: Procurement Cards, Vendor Payments less than \$100, Sponsored Financial Reporting, Vendor Payments and Travel and Employee Expenses. Over 1,200 transactions were tested. The number of units with activity tested within each process audit ranged from 54 to 144. Process audits were also conducted for Contract Management and Real Estate Management.

Procurement Card Audit

The University has over 5,300 active procurement cards (PCards) that generate over 250,000 transactions each year totaling just under \$60 million. The enterprise-wide audit included: 1) a 100% review of the PCard transaction file for unusual transaction and compliance with University policy requirements (approvals, justifications, provision of receipts, etc.); 2) 100% review of PCard activity that went through the exception processing process; 3) 100% review of manually approved PCard reports; and 4) review of the central monitoring performed on PCard activity. Through the data analytics executed as part of the audit individual units that consistently bypassed the preferred electronic approval process were identified. Detailed testing was performed on 471 items for compliance with the administrative policy: ***Using the University Procurement Card.***

The audit identified two significant frauds that involved use of a University PCard. The audit determined that the manual approval process for transactions that do not get approved electronically was not working as intended as the audit testing noted an error rate ranging from 39%-63%. Approval of financial transactions is a critical control to prevent against fraud and to ensure that expenditures are appropriate. Transactions that bypass the established approval process present a much higher fraud risk.

Vendor Payments Less than \$100

When EFS was implemented a decision was made to automatically approve all vendor payments less than \$100 as a means to improve efficiency and to calibrate procedural requirements with the limited

risks associated with these high volume/low financial exposure transactions. There were 29,110 vouchers less than \$100, totaling \$1.2 million, processed during the six month audit period.

The purpose of this audit was to review the transaction volume to assess if there was evidence to indicate the more streamlined process was being abused (making inappropriate or personal purchases, splitting transactions to stay under the \$100 limit, etc.). We tested 126 transactions from 54 units.

Compliance with University policy requirements was determined to be very good, with two exceptions. We found no indicators or evidence of inappropriate activity.

We did determine that 54% of payment transactions that did not utilize a purchase order were for items that should have done so. We also determined that 20% of payments were processed late. We identified potential process improvements to create better efficiencies in local units for handling payments to vendors having high volumes of these low dollar amount transactions.

Sponsored Financial Reporting

Sponsored financial reporting is performed for all University sponsored research by a central unit with the same name (SFR). This unit is responsible for:

- Submitting financial reports and invoices to sponsors to fulfill award requirements
- Managing all revenue and receivables for sponsored grants and contracts
- Facilitating the closing process within the financial system
- Coordinating sponsor, state, and federal financial audits
- Providing information for the University's annual reports, supplemental schedules and consolidated financial statements

The audit reviewed the processes associated with sponsored receivables, program income, and financial reporting to sponsors. The audit found that SFR has complete desk procedures, oversight reports and queries, and job aids developed for most SFR processes to promote consistent and efficient internal operations. In addition, SFR management has worked in coordination with Sponsored Projects Administration (SPA) and Training Services to develop a training program (SPECTRUM) for departmental research administrators. The training certification program assists departmental research administrators in understanding and applying internal and external agency regulations in sponsored projects management. The program defines effective stewardship of sponsored projects and improves internal controls to reduce risk. Audit testing confirmed SFR's internal processes and procedures provided a sound system of internal control and resulted in efficient operations.

Vendor Payments

The purpose of this audit was to assess the overall effectiveness of the processes established to pay vendors for the purchases of goods and services by the University. During the six-month period covered by the audit 64,153 voucher transactions of \$500 or greater totaling \$509.5 million were paid to University vendors.

A total of 238 transactions from 91 units were tested for compliance with the Administrative policies: ***Accounts Payable: Paying Non-Payroll Expenses*** and ***Paying Human Subjects***. Audit testing resulted in compliance rates ranging from 92-99% for eight of the ten specific policy requirements tested. The other two requirements, which involve the timeliness of payments, had compliance rates of 71-75%. Acceptable error rates have not been developed for the attributes we tested, so we were unable to

draw conclusions on whether the error rates we noted met institutional standards. However, only one attribute (timely vendor payments) had an error rate that, in our opinion, appeared to be excessive.

None of the sample transactions tested provided any indication of improper actions: no obvious fictitious vendors or invoices and no unsubstantiated multiple payments to individuals.

Travel, Entertainment, and Employee Reimbursements

Expenses associated with the same travel or entertainment event can be paid through four different payment mechanisms: employee reimbursement, corporate travel card, paid directly by the University or by use of a cash advance. Each of these payment mechanisms is reported independently, which makes the identification of all the expenses related to a single travel or entertainment event difficult.

There were 15,574 travel and expense reimbursement (excluding PCard) transactions processed during the six month period covered by the audit, with a total value of \$12.6 million. The audit included review of a statistical sample of 161 non-cash advance transactions from 52 units. These transactions were tested for compliance with 11 policy requirements included in two primary Administrative policies: ***Traveling on University Business***, and ***Hospitality and Other Special Expenses***. We also tested the 10 largest cash advances for allowability, approval, and reconciliation of the advance consistent with the Administrative policy: ***Cash Advances***.

The audit found a 94-99% accuracy rate on compliance with specific policy requirements, with the exception of timeliness, which had an 81% compliance rate. Policies and procedures governing these expenses are generally clear, concise, and well documented and the level of compliance indicates good policy understanding exists across the University. (The ***Traveling on University Business*** policy is the most frequently accessed policy on the University Policy Library website.)

Real Estate

This audit involved enterprise-wide testing of real estate related transactions and agreements for compliance with administrative policies: ***Acquiring and Disposal of University Real Estate*** and ***Use and Lease of Real Estate***, as well as the required reporting to the Board of Regents. Real estate activity is overseen by a central office, but transactions can be, and are, executed by individual University units. The audit specifically tested 49 leasing transactions, 10 TCF Bank Stadium facility use agreements, 5 TCF Stadium suite single use agreements, 12 Farmers Market vendor agreements, 10 Rosemount Research Center (RRC) lease agreements, 6 acquisition transactions, and 6 disposition transactions.

The requirements and related approvals for real estate transactions are clearly outlined in administrative policies and procedures. The audit identified a significant number of real estate contracts and transactions that did not fully comply with these requirements and the President's delegation of authority.

The challenge faced by the Real Estate Office is that they are often not aware of real estate related transactions until after they have been executed. We determined the Real Estate Office routinely communicates with the leadership of units who have entered into agreements where non-compliance has been identified after the fact, but based on the results of our review, this had not been sufficient to reduce the occurrence of non-compliance.

Recommendations were made for management to evaluate real estate policies to validate that policy limits and procedural requirements are appropriate. Once appropriate limits and requirements are reaffirmed, stronger mechanisms are needed to hold units accountable for compliance with them.

Large Contract Management

This audit involved the review of the ten largest contracts enterprise-wide. These contracts represent multi-million dollar revenue and expense streams. The contracts are managed independently by five different operating units.

The audit found controls over the negotiation, review, approval and execution of contracts are appropriately codified in University policies and associated processes (e.g., ***Legal Review of Contracts and Transactions, Purchasing Goods and Services***, etc.) and that these processes were operating as intended.

Once contracts have been executed, their administration is handled in a decentralized manner, generally by the unit that benefits financially from the contract. We determined there is little or no guidance provided in terms of institutional expectations for the administration of individual contracts. Risks associated with managing the contracts are identified and mitigated locally by the contract owners, without central review or monitoring. The audit found that significant differences existed in the rigor and discipline being brought to the management of the individual contracts by the various units. Additionally, assignment of contract management responsibility was not always clear. Finally, there was no identified “process owner” for contract management.

The audit identified units with “best practice” contract management practices that could form the basis of institutional guidance for units with contract management responsibilities.

Student Related Processes: Process audits have been completed for Admissions, Registration, and Course Fees.

Admissions

This process audit was primarily focused on the Twin Cities campus as it involved evaluating compliance with the Administrative policy: **Admissions for Undergraduates: Twin Cities**. Selected testing was performed University-wide. Audit testing confirmed that admission decisions on the Twin Cities campus are fair and unbiased, data provided to the Board of Regents is accurate, and scholarships are fairly allocated.

Registration

The audit was conducted enterprise-wide and included the review of ten registration processes. Compliance with the following policies was assessed: ***Course Enrollment Limits and Cancellations, Enrolling in Overlapping or Back-to-Back Classes, Establishing, Enforcing, and Waiving Prerequisites, and Holds on Records and Registration***. The audit concluded that registration processes are well designed and operate effectively to support the course registration by students on all the University campuses. Registration processes on all campuses are supported by a single enterprise registration system. Policies are standardized across all campuses with the exception of University of Minnesota Duluth, which has its own campus-based academic policies.

Course Fees

The purpose of the audit was to evaluate compliance with policy requirements for the assessment, approval, and use of course fees that are included in the Board of Regents **Tuition and Fees** policy.

Approximately 1,800 courses University-wide assessed course fees in 2011, generating over \$34M in course fee revenue. The audit included testing of expenses, transfers, and payroll expenses funded through course fee revenue to determine if the expenses complied with the Regents policy on the allowable use of course fee revenue. Testing occurred in 21 units.

The audit found that the process for course fee assessment works well. All course fees charged had been approved by the Regents and that the fees charged were for the approved amount.

Audit testing identified that some departments and units within the University were not clear about the allowable uses of course fee revenue. It was also determined there is not a standard process for accounting for course fee revenue. As a result, many units were combining course fee revenue with other sources of revenue into one account, making it impossible to track how specific fee revenue was ultimately used. Recommendations were made to: 1) clarify the course fee policy language to improve University-wide understanding of allowable uses of course fee revenue; and 2) establish a more consistent methodology for categorizing and accounting for course fee revenue.

Human Resources Processes: Process audits have been conducted for Payroll and Worker's Compensation

Payroll

Payroll and compensation-related expenditures are the single largest category of expense at the University and typically comprise 65% of its operating expenses.

This audit reviewed seven major payroll processes enterprise-wide. The audit found the absence of effective monitoring and oversight had jeopardized the decentralized control framework and resulted in inconsistent data, inefficient processes and insufficient controls. Opportunities to leverage the University's investment in enterprise resources through the use of data analytics and reporting had not been maximized. The complexity with which the PeopleSoft HRMS was structured to manage the University's human resource and payroll data had contributed to the control concerns, created data integrity issues, and complicated the ability to harness data for effective management and oversight. The sheer number of options for job codes, earnings codes, appointment term codes, etc. increase exponentially the opportunity for error.

Worker's Compensation

This audit focused on University policies and procedures associated with the internal processing and management of worker's compensation claims. The audit found the University offers more options for the payment of worker's compensation than is required by law. The internal processing of worker's compensation claims was found to be very complex, often leading to overpayments to employees. Recommendations were made to reconsider the current payment options to reduce complexity, streamline processing and avoid incurring expenses beyond what is required by law.

Other Processes: Process audits were completed for Affiliation Agreements, Legal Review of Contracts, Laboratory Safety, and Conflict of Interest.

Affiliation Agreements

This audit focused on affiliation agreements within the AHC, with particular attention on those agreements that result in reimbursement to the University for at least part of the salary and benefits paid by the University to student residents. There are over 1,700 active affiliation agreements in the AHC. The majority of these agreements are entered into by three schools: Medicine, Nursing and Pharmacy. The agreements generate approximately \$67 million in annual revenue.

The audit found the process for managing affiliation agreements and their related revenue had improved significantly, primarily due to greater centralization of certain processes such as greater involvement of the AHC in the execution of the agreements, use of a single database to manage the agreements, and the use of the central non-sponsored accounts receivables unit to process billings under the agreement. While timeliness of agreement execution was noted as a problem within each of the three schools, the majority of the agreements involved had been executed prior to the implementation of the AHC data base and the increase in oversight by the AHC and the Office of the General Counsel (OGC).

Legal Review of Contracts

This audit focused on evaluating compliance with Regents policies – ***Legal Review of Contracts and Transactions & Reservation and Delegation of Authority***. We tested all the contractual and transactional activity from FY 2012 for 1) review and approval by the OGC (when required by policy); 2) use of appropriate contracts (e.g., OGC standard contracts or non-standard contracts approved by the OGC); 3) appropriate approvals by individuals who have been granted the necessary delegations of authority and/or are required to approve (e.g. the VP for Finance); and 4) reporting to, and approval by, the Board of Regents (when needed).

The audit found that University departments are appropriately routing contracts to the OGC for review and contracts and transactional activity are being consistently reported to the Board of Regents as required. The audit did identify that individuals were signing contracts that had not been assigned this authority in the Delegation of Authority Library.

Laboratory Safety

This audit, while process in nature, was approached in a substantially different manner. Adherence to laboratory safety standards are the responsibility of locally-based Laboratory Safety Officers assigned to each laboratory. The Department of Environmental Health and Safety (DEHS) is responsible for establishing University research lab safety policies and procedures, including required lab safety protocols. It is also responsible for providing oversight and monitoring of the institutional lab safety program through an ongoing program of lab inspections. This audit did not include any specific testing in individual laboratories, but rather evaluated the effectiveness of the oversight provided by DEHS. Some discussions were held with local personnel regarding the safety practices within student laboratories, for which DEHS does not provide oversight.

The audit found that extensive and comprehensive information and guidance is provided to Research Safety Officers on the DEHS website. The program for completing lab inspections had, however, lapsed over recent years and had just been re-instituted with the hiring of a new research safety program manager. The program was beginning to show positive results, but was not yet operating at a level

which would be considered effective. Systemic issues still existed surrounding the clarification of responsibilities between the DEHS safety program and the Occupational Health and Safety Officer. Work had been done to clarify these roles and responsibilities, but action had not yet been taken to operationalize them. Systemic issues were also identified in the areas of the chemical and physical hazard assessment process and the monitoring and recording of required laboratory safety training.

Conflict of Interest

This audit addressed the process established by the Conflict of Interest program office to implement the Board of Regents policies: **Individual Conflict of Interest** and **Institutional Conflict of Interest** and the related Administrative policies. All conflict of interest matters throughout the University are handled, and flow through, the Conflict of Interest program office.

The Conflict of Interest program has established a performance standard of 100% for completion of all required Reports of External Professional Activities and Financial Disclosures for University Officials. This standard was informed by discussions held by the Audit Committee of the Board of Regents. Our audit testing confirmed compliance rates for both filings were 100% for the audit period. The filing status of all “covered employees” is actively monitored. The Conflict Review Panels were determined to be operating effectively in their consideration of conflict of interest matters. Our testing confirmed that effective processes were in place governing the creation and monitoring of conflict management plans and ensuring compliance with PHS training requirements.

We did observe that current definition of “covered employees” that are subject to reporting requirements might warrant review to assess whether it is appropriately calibrated relative to the risk being managed.

We also identified a systemic issue regarding the reporting that is required under the Board of Regents policy: **Outside Consulting and Other Commitments**. This policy is not under the purview of the Conflict of Interest program office, but there is an intersection as outside consulting arrangements can present conflict of interest issues. The audit results were forwarded to the policy owner for further action.

**Board of Regents Audit Committee
September 12, 2013
Process Audit Results
Previous Information Provided to the Audit Committee**

**Proposal to Change the Approach for the Allocation of Audit Resources
Excerpted from the Audit Committee Docket for May, 2011**

We are seeking the Audit Committee's direction on whether we should pursue an intentional and strategic evolution in our approach to deploying audit resources. We conduct our audit practice in compliance with the Institute of Internal Auditors' ***Standards for the Professional Practice of Internal Auditing*** and adapt our practice as these Standards change. There is a very high likelihood that within the next 3-5 years these Standards will require an overall opinion on the effectiveness of internal control and risk management practices be rendered annually at the institutional level. Given the size and complexity of the University, our current methodology for providing audit coverage would not enable us to obtain sufficient audit evidence to support such an opinion annually. We would like to propose an alternative methodology that would better position us to comply with such a Standard, as well as significantly improve our ability to further the administration's initiative regarding risk tolerance. The proposed methodology also would offer significant opportunities to further utilize technology to broaden our audit coverage over key institutional processes. There are, however, trade-offs, and it is important that the Audit Committee understands the implications if such a change is undertaken.

Current Methodology

Our current annual plans are built primarily around audit coverage of operating units (colleges, departments, etc.). A small number of process audits are included each year. Audit coverage is constructed to be "a mile wide and a mile deep" so that all significant activities carried out at the local level are audited thoroughly. Audit work is premised on the assumption that existing University policies are appropriately calibrated and the audit objective is primarily to determine local compliance.

This approach has, admittedly, served the University well. The University community values the coverage and accountability that is derived from these efforts. Unit leadership and personnel find the unit based audits to be very educational and senior leadership appreciates the accountability that is established.

It has, however, become increasingly difficult to maintain our established audit cycles as the University and its individual components become larger. Institutional trends in audit results can be determined but take a longer time to develop. This is exacerbated as audit cycles become longer. Trends also are not readily apparent to recipients of audit information (such as the Audit Committee and senior leadership) and require analysis by the audit staff to produce trending information. This approach is also not especially conducive to responding to emerging areas of concern, topics of interest at the Board and executive level. It is also not especially conducive to identifying systemic issues such as policy ineffectiveness, cost savings opportunities, best practices, etc. because of its focus on local operations.

Proposed Methodology

An alternative methodology would be to base the annual audit plan primarily on process audits. These audits could be conducted on either a campus-wide or system-wide basis. The focus of

the audits would be at the business process/policy level with the primary audit objective being to evaluate the efficiency and effectiveness of the specific process and related policies. Testing would be conducted in a sample of University units to obtain the evidence needed to formulate the audit conclusions. Audit coverage would be determined using a statistically valid methodology which would allow for extrapolation of the audit findings across the entire University.

This approach would be more effective at providing the Board of Regents assurance as to the University's overall risk and control effectiveness. Indicators of systemic problems would be more immediately identifiable, and recipients of audit information would be able to quickly gauge institutional compliance with policies and procedures. Our audits would include the identification by process/policy owners of the performance expectations (level of compliance) expected, which would further the risk tolerance discussion at a very practical level. This methodology also will be more effective in identifying when policy changes might be warranted based on a risk/cost/burden assessment. Best practices would also be more apparent as information from multiple units would be available to assess differences in audit results.

Some unit audits would still be included in the annual plan, but these would constitute a far smaller percentage than has been our practice. Unit audits would be included based on risk and/or specific requests from the administration; however, formal audit cycles would most likely be eliminated. There would also be selected units which would continue to be audited individually because of their unique activities and risks such as Intercollegiate Athletics, Student Finance, etc. We would also intend to continue to provide audit coverage at the coordinate campuses as we do currently, at least until this approach has been more fully integrated into our practice.

In implementing this type of methodology we would develop a system to track audit coverage provided within the process audits by college/department/unit. This would help us identify units that have a pattern of operational problems. We would also continue our historical practice of engaging in discussions with institutional leaders during our planning process, by which we are alerted to units which may warrant specific audit attention.

The hierarchy of the audit plan would be: 1) process audits, 2) special requests of areas that warrant reviews and 3) unit audits, with priority given to those with the highest risk assessment. The current methodology results in an audit plan that is approximately 85% unit audits and 15% process. We would expect the proposed methodology to result in approximately 70% process audits and 30% unit audits.

Based on our experience with conducting process audits, we expect this approach may initially be met with some resistance from process/policy owners who have no control over the individuals within the local units who are responsible for adherence to the process/policies. This approach also would not result in the granularity that our current audits do. It is likely that localized problems would not be identified, nor would risks that could be significant at the unit level but which are not institutionally significant. The approach would provide coverage over most of the activities that are engaged in at the local level, but through the view of the process versus the unit, with the exception of local resource management.

**Rationale for Modifying Our Audit Approach
Excerpted from the Annual Audit Plan
Presented to the Audit Committee in July, 2011**

In his *Transforming the U: Progress and Impact* report (Winter 2011), President Bruininks stated that: “.... *We must remain consciously committed to the principle that we will not abandon any of our core responsibilities.....this will require us all to be disciplined and entrepreneurial within our own units....in order to refine and focus our endeavors so that we deliver on our mission strategically, where and when we are most needed.*”

Over the last several years it has become increasingly difficult to maintain appropriate audit coverage of the University using our current audit methodology (and established audit cycles) given the growth in both the size and complexity of the University over the last ten years coupled with a 17% reduction in internal audit staff resources. The time period necessary for performing enough unit-based audits to obtain sufficient audit evidence to draw conclusions on the effectiveness and efficiency of the University’s risk and internal control processes at an institutional level is becoming elongated. The effort required to meet established audit cycles as closely as possible also severely limits our flexibility to address emerging areas of concern.

Changing our audit “optic” to be more process-focused will enable the Office of Internal Audit to be more strategic in the deployment of audit resources, “delivering on our mission more strategically, where and when we are most needed”. We believe this approach will produce better evidence for providing senior leadership and the Board of Regents assurance as to the University’s overall risk and control effectiveness. Indicators of systemic problems will be more immediately identifiable, resulting in more timely remediation. We also believe this approach will better support the administration’s strategic risk management initiative as it would provide more tangible evidence regarding the effectiveness of existing policies in mitigating risks at the appropriate level. It also will be more effective at identifying best practices within the institution, as well as areas that might benefit from process improvement. Finally, this approach offers us more opportunity to leverage the capabilities offered by EFS by incorporating the broader use of technology to enhance our audit coverage.



UNIVERSITY OF MINNESOTA BOARD OF REGENTS

Audit Committee

September 12, 2013

Agenda Item: University Financial Risk Profile

review review/action action discussion

Presenters: Vice President/CFO Richard Pfitzenreuter

Purpose:

policy background/context oversight strategic positioning

The Audit Committee work plan is structured around a series of discussions of risks associated with each major operational component of the University. These discussions provide the Audit Committee with the administration leadership's views on the risks facing the University and those risks deemed by the administration to be significant to the achievement of the University's strategic goals. This is the fifth discussion in the series.

This discussion will focus on the strategic financial risks facing the University and will outline the current and planned efforts to manage or mitigate those identified as most strategic.

Outline of Key Points/Policy Issues:

The presentation will provide an overview and discussion of strategic financial risks in five broad categories:

- Maintaining key financial relationships
- Financing the mission
- Financing operations
- Financing capital assets
- Emerging trends

The accompanying "strategic financial heat map" depicts the administration's assessment of the risks associated with those activities in terms of the likelihood of an unfavorable outcome, and resulting impact of an unfavorable outcome. The discussion will highlight the most significant strategic financial activities and risks, touch on trends and emerging themes, and review strategic opportunities for risk mitigation.

Background Information:

At its February 11, 2011 meeting, the Board expressed support for the Strategic Risk Management Work Group's operational strategy and risk principles, which provided a framework to guide the University community toward a more strategic risk management approach across all aspects of its operations.

Throughout FY 2013 the Audit Committee reviewed and discussed the risks associated with each of the major operational components of the University. Previous risk discussions by the Board of Regents Audit Committee include:

- Research (December 2012)
- Human Resources (February 2013)
- Information Technology (May 2013)
- University Operations (June 2013)

Strategic Financial Risk Profile

<p>High</p>	<ul style="list-style-type: none"> <input type="checkbox"/> Facility conditions <input type="checkbox"/> Keeping capital assets relevant / up-to-date given the rate of change in research facility 	<ul style="list-style-type: none"> ☆ Sustainability of professional schools' business models ☆ Federal research funding ☆ Financing graduate education ❖ Teaching and learning in the digital age
<p>Moderate</p>	<ul style="list-style-type: none"> ☆ Research competitiveness and productivity ☆ Generating new revenue streams ☆ Role & Sustainability of Auxiliary Operations ☆ Enrollment fluctuations ○ Technology & data infrastructure ○ Doing business globally 	<ul style="list-style-type: none"> ➤ State of Minnesota ➤ Fairview – Integrated Structure – ACC ☆ Undergraduate Tuition – Cost of Attendance ☆ Financial Aid ☆ Medical School business model ☆ Long term financial model for fundraising ☆ Instructional efficiency ☆ Endowment & Investment Management ○ Compensation ○ Health care / benefits costs ○ Administrative efficiency, operational excellence, cost containment <input type="checkbox"/> IRS “private use” compliance
<p>Low</p>	<ul style="list-style-type: none"> ➤ Donors ○ Utility costs <input type="checkbox"/> Debt capacity <input type="checkbox"/> Debt rating ❖ Public-private partnerships 	

Low

Moderate

High

Impact

➤ Maintaining Key Financial Relationships

☆ Financing the Mission

○ Financing Operations

Financing Capital Assets

❖ Emerging Trends



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

September 12, 2013

Agenda Item: 2013-14 Committee Work Plan Discussion

review review/action action discussion

Presenters: Regent Laura Brod
Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

The purpose of this discussion is to establish the committee work plan for the upcoming year.

Outline of Key Points/Policy Issues:

The proposed work plan focuses on continuing the discussion of institutional risks that will culminate in an the updating of the Audit Committee's Institutional Risk Profile.

The work plan ensures the committee receives the information necessary to carry out the governance and fiduciary responsibilities assigned to it in its charter, including the supervision of the external auditor and oversight of the internal audit program. The Audit Committee also has an obligation to be informed regarding the institution's compliance program.

Background Information:

Each standing committee of the Board of Regents establishes an annual work plan. The work plan is a means to assist the committee in discharging its responsibilities under its Charter and provides a structure to ensure the topics of highest priority receive the committee's attention.

Audit Committee Work Plan 2013-2014

Committee Work Plan Theme:

Fulfilling governance's responsibility by understanding the University's institutional risks.

Date	Topics
2013	
September 12-13	<ul style="list-style-type: none"> • Internal Audit Update (Fiduciary) • Process Audit Results (Governance) • University Financial Risk Profile (Governance/Education) • 2013-2014 Committee Work Plan Discussion (Governance)
October 10-11	No Audit Committee <ul style="list-style-type: none"> • Even though the committee will not meet in October, it will need to review the annual financial statements prior to their finalization in mid-October. As in previous years, this will be handled by the Chair via a conference call. (Fiduciary)
November	No BOR or Committee Meetings.
December 12-13	<ul style="list-style-type: none"> • Board of Regent Policy: <i>Audit Committee Charter</i> (Review) (Fiduciary/Governance) • External Auditor Report (Fiduciary) • Academic Health Risk Profile (Governance/Education) • Institutional Compliance Officer Semi-Annual Report (Governance) • Information Item: Semi- Annual Controller's Report (Fiduciary)
2014	
January	No BOR or Committee Meetings.
February 13-14	<ul style="list-style-type: none"> • Board of Regent Policy: <i>Audit Committee Charter</i> (Action) (Fiduciary/Governance) • External Auditor's Review of Completed Audit Work and Letter to Management (Fiduciary) • Overview of the Fiduciary Responsibilities of Non-Profit Audit Committee Members • Risk Profile Discussion (Governance/Education) • Internal Audit Update (Fiduciary)
March 27-28	No Committee Meetings.
April	No BOR or Committee Meetings.
May 8-9	<ul style="list-style-type: none"> • External Auditor Review (Fiduciary) • External Audit Plan (Fiduciary) • Risk Profile Discussion (Governance/Education) • Institutional Compliance Officer Semi- Annual Report (Governance) • Office of Internal Audit Charter (Fiduciary/Governance) • Information Item: External Auditor Relationships and Services Provided (Fiduciary)
June 12-13	<ul style="list-style-type: none"> • Internal Audit Plan (Fiduciary/Governance) • Internal Audit Update (Fiduciary) • Information Item: Semi-Annual Controller's Report (Fiduciary)
July 9-11	BOR Meeting and Retreat. Committees only meet if there are urgent items requiring action.
August	No BOR or Committee Meetings.

Unspecified Risk Discussions have been included on the work plan. The areas that still need to be scheduled are: Academics, Compliance, and Athletics

An education session on HIPAA regulations and University compliance may also be added to the work plan at a later date.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Choose one

September 12, 2013

Agenda Item: Consent Report

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

To review and approve an engagement with an external audit firm that exceeds \$25,000, as required by Board of Regents Policy: *Audit Committee Charter*.

Outline of Key Points/Policy Issues:

The University's Office of Student Affairs (Student Affairs) seeks to engage Deloitte & Touche, LLP (Deloitte) to perform agreed-upon procedures for certain student groups receiving allocations of student fees from the University. This engagement was not included within the scope of Deloitte's FY 2013 annual audits previously approved by the Board. The fees for this engagement are not to exceed \$79,000.

The Controller's Office has reviewed the engagement. The scope of work outlined in the engagement would not impair the independence of the firm with respect to the University.

Background Information:

The requested review and approval conforms to Board of Regents Policy: *Audit Committee Charter*.

President's Recommendation for Action:

The President recommends approval of the Deloitte & Touche, LLP engagement.



**UNIVERSITY OF MINNESOTA
BOARD OF REGENTS**

Audit Committee

September 12, 2013

Agenda Item: Information Items

review review/action action discussion

Presenters: Associate Vice President Gail Klatt

Purpose:

policy background/context oversight strategic positioning

To provide the Board of Regents with information regarding an emergency approval of professional services from an external auditing firm.

Outline of Key Points/Policy Issues:

Emergency Approval

On July 23, 2013 and August 7, 2013, Chair Beeson, Vice Chair Johnson, Finance Committee Chair McMillan, and Audit Committee Chair Brod approved an emergency purchase of professional services from an auditing firm as follows:

- To PricewaterhouseCoopers for an estimated \$2,700,000 for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (x.500) with Oracle Identity Management and related systems, between July 2013 and May 2014.

The emergency approval was requested because no Board meetings were scheduled for August, and approval was needed to ensure that the related projects proceeded uninterrupted.

The approval was consistent with Board of Regents Policy: *Board Operations and Agenda Guidelines*, Section II, Subd. 10, which states:

- Upon the recommendation of the president, the Board chair, vice chair, and the respective Committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approvals will be brought to the next meeting of the Board, consistent with Board policy.

Background Information:

Information items are intended to provide the Board of Regents with information needed for them to provide their oversight responsibilities.

July 18, 2013

The Honorable Richard B. Beeson
The Honorable Dean E. Johnson
The Honorable David McMillan

Dear Members of the Board:

As you know, the policy on Board Operations and Agenda Guidelines stipulates that Board approval is required before the University makes any purchase of goods or services in the amount of \$1,000,000 or more. This approval is also required by the Regents policy on Purchasing.

Since the Board will not be meeting in August 2013, no approvals for large purchases are possible until September 2013 under normal procedures. However, the Board Operations and Agenda Guidelines allow for an emergency procedure if an emergency situation exists as defined in the Guidelines. Specifically, in Section II, Subd. 10, the policy reads as follows:

Upon the recommendation of the president, the Board chair, vice chair, and the respective committee chair may act on behalf of the Board when delay for Board approval poses a significant health, safety, or financial risk to the University. Any such emergency approvals will be brought to the next meeting of the Board, consistent with Board policy.

Upon the request of the Director of Purchasing, the Controller, and the Vice President and Chief Financial Officer, I am recommending Board approval for the following large purchases using this emergency process:

- To PricewaterhouseCoopers for an estimated \$2,700,000 for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (X.500) with Oracle Identity Manager and related systems between July 2013 and May 2014.

PricewaterhouseCoopers has been selected through a competitive bidding process as the implementation partner for this project based on their competitive pricing and history of successful implementation and their ability to complete the implementation within the specified time frame. The value of this contract is included in the approved budget for the Enterprise Systems Upgrade Project (ESUP).

Request for Emergency Approval
July 18, 2013
Page 2

I am recommending that these be approved on an emergency basis to assure the purchases are made as economically as possible, and to avoid interruption of their related projects.

Attached is additional information and supporting documentation for the purchases themselves and justification for handling them under the emergency approval process.

Sincerely,

A handwritten signature in black ink, appearing to read "E. Kaler", with a long, sweeping horizontal stroke extending to the right.

Eric W. Kaler
President

EWK:jes

Enclosures (3)

To: Richard Pfitzenreuter III

From: Andrew Hill, Enterprise Systems Upgrade Program

Subject: Request for Emergency Approval on a Contract valued at \$1,000,000 and over

Date: July 18, 2013

The Enterprise Systems Upgrade Program would like to request an emergency approval of a contract for professional services to retain PricewaterhouseCoopers (PWC) as a partner for the implementation of Oracle Identity Manager. This request was originally submitted for inclusion on the July Regents' docket, but was withdrawn following questions about potential conflict of interest. These issues have been addressed. PWC and the Office of General Counsel are both involved in determining mutually acceptable Terms and Conditions for the contract, and a complete Statement of Work has been prepared.

If we are unable to proceed with this contract until after the September Regents' meeting, the schedule of the project will be at risk. The new identity management system must be sufficiently advanced for the end-to-end project testing to begin on schedule. Therefore delay in bringing the implementation partner on board could result in delay in the deployment of the new enterprise systems. A one month delay would cost the University approximately \$3 million in Fall 2014. We therefore request that this be submitted through the emergency approval process.

Summary

Vendor: PricewaterhouseCoopers

Value: Estimated at \$2.5 million

Desired start date: August 5, 2013

Description: Implementation partner for Oracle Identity Manager within the overall Enterprise Systems Upgrade Program

Purchase of Goods and Services \$1,000,000 and over

To PricewaterhouseCoopers for an estimated \$2,700,000 for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (X.500) with Oracle Identity Manager and related systems.

As part of the Enterprise Systems Upgrade Program (ESUP), the University of Minnesota is planning to replace their existing legacy identity management system (X.500) with Oracle Identity Manager. This implementation will benefit the University by replacing a locally developed system with a standards based, vendor supported solution that incorporates a framework to easily build new functionality, providing end-users with a method for performing self-service functionality and providing more robust opportunities for integration with other internal and external systems.


PricewaterhouseCoopers will work closely with local University staff to do the design, development, testing, training, deployment and transfer of knowledge. PricewaterhouseCoopers is contracted to develop and execute the project plan and the change management and communication plans, to provide detailed fit/gap analysis, functional and technical designs, and to build and deploy the new software.

PricewaterhouseCoopers has been selected through a competitive bidding process as the implementation partner for this project based on their competitive pricing and history of successful implementation and their ability to complete the implementation within the specified time frame.

ESUP is a University-wide program approved by the Boards of Regents of the University of Minnesota. The value of this contract is included in the approved budget for the program.

Submitted by: Andrew Hill
Director, Enterprise System Upgrade Program
150 Williamson Hall
Phone: 612-625-1387
Email: ajhill@umn.edu

Approval for this item requested by:


Vice President and CIO

6/25/2013
Date

UNIVERSITY OF MINNESOTA

Office of the Associate Vice President-Finance &
Controller

Ste 205 West Bank Office Building
1300 S. 2nd Street
Minneapolis, MN 55454-1015

Office: 612-625-9529
Fax: 612-625-7384

Date: August 7, 2013
To: The Honorable Laura Brod, Chair, Board of Regents Audit Committee
From: Michael Volna, Associate Vice President, Finance & Controller
Subject: **Emergency Audit Committee Approval**



The Board of Regents Audit Committee Charter stipulates that Board approval is required for all engagements of external audit firms to perform work or provide services with a value greater than \$25,000 or that may impair the audit firm's independence regarding the University. Since the Board will not be meeting in August 2013, no approvals are possible until September 2013 under normal procedures. A purchase of professional services requiring Board approval has been presented for emergency approval, pursuant to Board Operations and Agenda Guidelines and Board of Regents Purchasing policy. The information related to that emergency Board approval is included for your information. Because this proposed contract represents a non-audit engagement with an external audit firm, it requires Audit Committee approval as well.

I am recommending Audit Committee review and approval of an engagement with PricewaterhouseCoopers for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (X.500) with Oracle Identity Manager and related systems between July 2013 and May 2014.

I have reviewed the proposed contract, including the scope of work, deliverables, and the University's management plan for this non-audit engagement. I have concluded it does not represent an impairment of the firm's independence, and as such would not preclude them from being selected as the University's independent external auditor in the future (the firm is not now engaged as the University's independent external auditor).

cc: Gail Klatt, Associate Vice President and Chief Audit Executive
Richard Pfitzenreuter, Vice President and CFO
Brian Steeves, Executive Director, Board of Regents

*Board of Regents
Office of the Executive Director
and Corporate Secretary*

*600 McNamara Alumni Center
200 Oak Street S.E.
Minneapolis, MN 55455
612-625-6300*

August 7, 2013

To: President Eric Kaler

From: Brian Steeves, Executive Director & Corporate Secretary



Re: *Emergency Approval*

By email and phone on July 23, 2013 and August 7, 2013, Chair Beeson, Vice Chair Johnson, Finance Committee Chair McMillan, and Audit Committee Chair Brod each reviewed and approved the request from you for emergency approval of the following action (as described in the attached letter):

- To PricewaterhouseCoopers for an estimated \$2,700,000 for professional services related to the replacement of the University of Minnesota's existing legacy identity management system (x.500) with Oracle Identity Manager and related systems between July 2013 and May 2014.

I understand that this information will be reported to the Board of Regents at the September 2013 meetings, as required by Board Policy.

c: Richard Pfutzenreuter, Vice President
Michael Volna, Controller
Gail Klatt, Internal Auditor